

PERSPECTIVES ON NIGERIA'S ECONOMIC DEVELOPMENT

Pascal G. Dozie

VOLUME I



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Perspectives on **N**igeria's
Economic **D**evelopment
Volume **I**

Perspectives on Nigeria's Economic Development Volume I

Pascal G. Dozie



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Foreword

Having closely observed Pascal Dozie over more than two decades, one can safely conclude that few, if any, Nigerians have laboured more diligently, or pragmatically, to, chart and foster a successful path towards sustainable and accelerated economic development.

The speeches selected for this book represent only the tip of the iceberg as far as Pascal's efforts to learn and to persuade others about the desired future direction of the Nigerian economy. In the first place, only speeches from recent years have been selected thus missing the long-term consistency he has displayed in multiple roles during the past quarter of this century. More importantly, speeches alone cannot convey the flavour, or the depth, of a leader who has participated in many hundreds of seminars, workshops, committees, panels and discussion groups during that time.

Nevertheless, the speeches do provide a clear vision of where the economy should go if it is to break the chain of stop/go cycles which have contributed to negative per capital income trends since the 1970's. Pascal is a firm believer in market forces and competition for an economy cursed with pervasive corruption, excessive self-interest and short-term thinking, borne of a prevalent trader mentality. He believes the consumer must be king if Nigeria is to reach its economic potential and this must be true both in the marketplace and in politics, since good governance must also focus on steadily improving the standard of living and well-being of all Nigerians.

His speeches further show an understanding of the many political forces at work and the overriding need to dialogue openly with all interest groups as the means for reaching consensus on issues and building support for implementing practical solutions. The methodology which he encouraged in Business International, Lagos Business School, Nigerian Economic Summit Group and VISION 2010 clearly demonstrates that open dialogue, brainstorming, exposure to global realities, and group solution techniques all combine to build strong

consensus among diverse stakeholder groups as to a workable national economic agenda. His role in this process can partly be observed in the various speeches in this book since it involves an ongoing education in multiple forums.

As an economist by training, Pascal starts with a holistic view on Nigeria, choosing to get; first, the overall objectives and goals right on both economic and non-economic fronts. He is convinced that it properly managed, the Nigerian economy could grow indefinitely at up to 100% per annum in real terms, while simultaneously improving education, healthcare, infrastructure and other Human Development Indicators. As his coordination to keep inflation at single digit levels, development combine fiscal/monetary systems (both banking and capital markets) and fostering a conducive investment climate which leads to significantly increased private investment followed by job creation and rising living standards.

As his career evolved in the financial area through start up of Diamond Bank and the presidency of the Nigerian Stock Exchange, he has increasingly had to grapple with the details of banking and capital markets. This experience has reaffirmed his conviction that strong and reliable institutions are the foundation for a functioning democratic system. He particularly has advocated an autonomous Central Bank of Nigeria and the elimination of “ways and means” of financing Government deficits in favour of tapping the capital markets at free and competitive interest rates. These steps are imperative if Nigeria is to escape its history of printing money, or subsidizing government borrowing, when government does not live within its means. Given the heightened role that capital markets must therefore play, Pascal gave priority during his tenure of leadership at the Nigerian Stock Exchange to freeing up the market and making it more efficient. His efforts have led to doing away with the allocation systems, freeing up pricing from SEC controls and implementing systems conducive to transparent, open and efficient capital markets.

His dedication to positive principles is further evident in the creation of Diamond Bank Limited, whose shareholders have been determined

to develop an efficient bank owned and managed by professionals who work together to create a lasting institution.

It is this focus on long term, sustainable results that set Pascal apart from his peers.

The temptations are great in Nigeria to cut corners, go for short gain or keep ownership under tight control. Only the visionaries, who base their life on principles, will demonstrate the untiring perseverance and missionary-like zeal to pursue the long term good of all involved in a given endeavour. Pascal rises to this level by putting his maker, his family, his nation, his institution, and his community in the first place before considering his own needs.

This selfless approach has helped him to form many successors and future leaders to whom the baton has been, or is being passed. As a result, he has attracted to his teams in various institutions many of the finest professionals Nigeria has to offer. Moreover, this approach has helped him to form many successors and future leaders to whom the baton has been, or is being passed. As a result, he has attracted to his terms in various institutions many of the finest professionals Nigeria has to offer. Moreover, this approach has created a widespread circle of friends and relationships, many of whom have laboured with him through difficulties and hard times, sharing the burdens and the good times and also making it pleasurable to work for a course.

As Nigeria starts the transition to democratic government, the challenges ahead are even greater since the future decision-making process should gradually become more open, diverse and transparent. The need for education, research, open dialogue and consensus-building will be even greater than in the past. The nation is fortunate indeed to have Pascal Dozie leading the effort to achieve breakthrough on the economic front.

Dick Kramer
March 1999

Acknowledgements

Ideas crystallise slowly, Economic ideas crystallise even more slowly. The reason is not difficult to fathom. There is no shortage of ideas on the way forward in regard to the great economic issues of our time. The passage of time tends to further worsen matters in this regard as concepts literally unravel faster than they are conceived.

Following this posture, the arena of public discourse becomes a useful avenue for generating ideas. It is the vehicle both for ensuring that our ideas are founded on solid basis and for propagating those same ideas amongst as wide an audience as possible. The opportunity to continually air one's views and to test them for durability has made a huge difference in terms of stabilising the overall thrust. I must thank all those who by inviting me, gave me the opportunity to express my ideas on certain issues.

It would be stating the obvious that one's opinion is all the time being modified by interaction with others, especially if one has an open mind to learn. In this regard, I owe a lot to acquaintances too numerous to recount. However, mention must be made of Dr. Angelo Forte, formerly of Business International, S.A., Geneva, our revered senior in the field of Economics, Dr. P. N. C. Okigbo, Dr. Kalu Idika Kalu, Dr. Chu S. P. Okongwu and Mr. Richard L. Kramer ("Dick"). My experience with them has always been intellectually stimulating and rewarding.

The impetus to put my thoughts of the past several decades into print came from an unlikely source, Sam Obi Aneke, my Personal Assistant of many years, who privately began assembling my speeches without as much as a hint to me. When he 'confronted' me with his 'evidence', I was truly humbled at what was indeed possible out of my modest intellectual effort. My gratitude also goes to Ernest C. Ebi, Benjamin Oviolu and Nkem Ossai for their contribution to this effort.

I wish also to express my gratitude to the Unilag Consult, the consultancy services unit of the University of Lagos, for helping to put

the materials together in some sequential form. Specifically, I acknowledge the contributions of the Managing Director, Professor Peter O. Adeniyi, his editorial consultants, Dr. (Mrs.) E. O. Adegbite and Dr. S. I. Owuala, as well as other staff members of Unilag Consult.

This book originally published 1999 is re-published in 2012 as a new edition to accompany volume II, both published by my longtime friend Chief Joop Berkhout of Safari Books Ltd and his team, and skillfully edited by Louis Ndimele.

Finally, I owe a world of emotional gratitude to my wife, friend and partner, Chinyere, who has been a bedrock of inspiration and shared goals. It would hardly amount to an understatement to say that my career has been made exciting and pleasant by her unflinching support and understanding. To my sons, Uzoma, Chiekezi, Kelechi, Ngozi and Chijioke, I say thank you for allowing me, despite all my obvious shortcomings, to be your friend. To God be all Glory.

Pascal G. Dozie

Chapter 1

A Nation in Distress - Which Way Out?

Introduction

In the subsequent chapters of this book, an attempt has been made to examine several aspects of the Nigerian banking and financial systems, capital market, economic development planning, budget and fiscal policy as well as the role of private sector in development.

However, given the lingering and unresolved socio-political and economic problems, some questions still beg for urgent answers in order for the country to be able to discern and create a way out of the problems. Such questions, among others, include the following:

- What is a “Nation”?
- Is Nigeria a “Nation”?
- What is “Distress”?
- Can a Nation be in distress and if so should it?
- Is Nigeria, assuming it is a nation, in distress?
- What is the way forward if Nigeria is in distress?

In order to appreciate the import of the issues discussed in the subsequent chapters, an attempt is made to provide answers to some of these questions. In doing so, it is important to clarify the following key terms – Nation and distress.

What is a Nation?

The *Webster's Dictionary of the English Language* defines "Nation" as follows:

- (i) "A body of people recognised as an entity by virtue of their historical, linguistic or ethnic links".
- (ii) "A body of people united under a particular political organisation and usually occupying a defined territory".

The key words in the first definition are "body" (suggesting a "unit") and "recognised". The first is self-explanatory; the second, however, presents problems as there are two basic means of achieving "recognition" - from within the self and from outside the self. That the "entity" called Nigeria is "recognised" from outside - as a matter of convenience - is quite clear; the reverse is uncertain and herein is the crux of the problem.

The second definition compounds the situation by introducing the word "united" into it. Nigerians are now in a quandary - do Nigerians, recognise themselves as a "body", as "united", as an "entity"? It is interesting to note that these words are synonymous one with the other and that the answer to this question will form the basis for resolving Nigeria's problems - if the people recognise that such problems exist! If Nigeria recognises herself as a "body" or entity" and is therefore "united", then its goal(s) will be as for a "body".

What is Distress?

Again, *Webster's Dictionary* defines "distress" to mean:

- "acute financial hardship"
- "being in great difficulty or danger"
- "considerable mental or physical discomfort"

Given the above definition, is it appropriate to say then that the

Nigerian Nation is in distress? Which form of distress?

- acute financial hardship?
- great difficulty or danger?
- considerable mental or physical discomfort?
- or, is the country suffering from a combination of all three types of distress?

To answer these questions, one must take a brief look at the situation in Nigeria now, and in the last few years. For ease of analysis, 1995 is taken as a benchmark and the analysis is based on Nigeria's situation pre-1995, 1995 and beyond.

A Nation in Distress

In the few years before 1995, the Nigerian economy was in a free fall and the country was bleeding from almost all sectors. The financial sector was in total disarray, the educational and health systems were comatose, the infrastructure, such as there was, was deteriorating, manufacturing and other economic sectors were in the doldrums, unemployment and inflation were on a steep rise and quality of life for the average Nigerian was at its lowest. The goose that laid the golden egg for the country was in a very poor state. Investment in the oil sector was on the decline due to difficulties in the payment of cash-calls by government and as if this was not enough, non-oil exports evaporated.

The impact of the country's woes on government revenues was a fast decline in revenues which resulted in Nigeria's inability to meet various loan obligations to multilateral and other international agencies. Nigeria's international indebtedness which stood at over \$30 billion by the end of 1994 became a major concern and a source of financial embarrassment to the Nigerian government. Similarly the country was unable to meet its financial obligations on the domestic front. Indeed, the burden of domestic debts was not, and in fact, has yet to be fully resolved.

Another result of Nigeria's economic misfortune was the steep rise in social crimes – fraud and violent crimes. To operate a business venture in Nigeria and indeed to live in Nigeria became very hazardous. These and other factors mentioned earlier made Nigeria most unattractive for investment. The resultant effect was massive capital flight, disinvestment by both Nigerians and foreigners alike and despondency and fear for life by almost every citizen.

Thus, with respect to the third question – “*Is Nigeria in distress*”? one can answer this question decisively thus,

- Is Nigeria in “*acute financial hardship*”? Yes
- Is Nigeria in “*great difficulty or danger*”? Yes
- Is Nigeria, as represented by Nigerians, “*in considerable mental or physical discomfort*”?

If one is not blind to one's immediate environment, the answer has to be ‘Yes’! So, “*Nigeria is in distress*”.

Which Way Out?

Is there a way out of the distress? The answer is **Yes**. The problem confronting any nation can be solved.

In the first place, a sick nation like a sick man must first accept that it is in trouble and needs to do something about it. It then takes adequate prescription, or pills that provide the remedies to the causes of the illness – not the symptoms of the illness. Often, the application of these medicines needs to be sustained over a long period, and while they are being taken, they cause more pain especially if the disease, due to past negligence, has become deep-rooted. The sick person invariably is required to make sacrifices by abstaining from certain foods or going through rigorous and painful exercises. Success or cure will come in the end only if the sick person adheres strictly to these prescriptions and makes the necessary sacrifices. Even after a cure or healing is achieved, the patient has to change the old habits and ways that led to the illness

and may at times continue with the therapy for a long period. Failure to do this may lead to a relapse. The relapse if severe may lead to eventual demise of the sick person.

How does this analogy apply to Nigeria?

It is obvious that in Nigeria, people know that the country is distressed but they neither want to believe it nor take the necessary pills and make the necessary sacrifices to overcome the distress. Nigerians are “playing the Ostrich” - burying one’s head in the sand and pretending that the whole body is well covered. However, over time, this attitude has been changing although very slowly.

Previous Attempts at Recovery

Several attempts have been made by the past governments to lift Nigeria from its economic and social predicament. These attempts achieved no meaningful success because the policies were neither stable nor sustainable. Often government’s efforts were addressed at solving the symptoms rather than the causes of the problem. At other times partial rather than general or total solutions were tried and in most cases the measures applied were neither sufficient nor well coordinated to achieve desired results. Added to this, the execution of government policies had always been overwhelmed by self-interest seekers that abound in the Nigerian, society, thwarted societal values, corruption, indiscipline and the average Nigerian’s penchant for “*quick fixes*” rather than long-lasting solutions.

Which Way Nigeria?

The way out would require first and foremost, a recognition by Nigerians that the country is in distress and the commensurate acceptance of responsibility for this distress. Secondly there must be the will power to swallow the appropriate pills and make the necessary sacrifices that are required for a long lasting solution – not “*quick fixes*” To achieve this, each Nigerian must remember

that famous equation *“sweat plus sacrifice equals success”*.

Given the above, the following must be done. The Macroeconomic framework must be appropriate and conducive to sustain economic recovery. This will be followed by a three-pronged attack.

First, there must be fiscal discipline which calls for a comprehensive programme of restructuring the public sector and downsizing government interference. The key elements of this programme will involve:

- Government spending - no spending except backed by collected revenues.
- Privatisation - government's withdrawal from business ventures that can easily be handled by the private sector.
- Reduction of bureaucratic controls - eliminating and/or simplifying approvals and regulations that impinge or inhibit investment.

Second, in order to produce economic growth and create employment, private sector savings and investment must be stimulated. This would require policy stability and improved macroeconomic framework which ensures predictable operating conditions, low inflation, security of life and property. Lastly, Nigeria must tackle its debt problem – foreign and domestic. Solution to domestic debt is necessary because this would, among other things, help investment while solution to foreign debt problem will enable the country regain its international respectability and credit – worthiness. An improved image abroad will ginger foreign private sector investment and hence economic recovery. An important question to ask at this juncture is – where is Nigeria now?

On The Way to Recovery

Nigeria is on its way to recovery but it has to stay the course if the country is to succeed eventually, because the road to recovery is always a difficult and painful one. The recovery process would

have been speeded up had the country not had the 1994 budget, the disastrous effects of which are yet to work themselves out of the system. The policy measures of the 1995 budget and the steps which the government has taken since then are very laudable and are in the right direction. Although the pace of policy implementation has been slow, there seems to be total collapse in purchasing power, this is because government has turned off its spending pipe. Although the political crisis has reduced international confidence in the country, a lot of success has been achieved. Here are a few of the major achievements:

First of all, the downward sliding of the economy has been arrested. The Nigerian government of 1995 has improved on fiscal discipline. Money supply seems to be under control and inflation has thus been on the downward trend. Equally the naira exchange rate has remained relatively stable. The macroeconomic framework has improved – providing a better planning environment for the private sector. Again, the bleeding in the petroleum sector has stopped – arrears of cash – calls are being paid by government and in fact, the oil sector is now witnessing increased activity. Distress in the financial sector is being tackled by the regulatory authorities in a more systematic manner and this is expected to induce more discipline in that sector. Finally the promulgation of Decrees 16 and 17 was a very courageous decision, and a clear signal from government that it is ready to promote a conducive environment for investment and growth. It may take some time for the investing Community to take in the full import of policies in the 1995 budget and of Decrees 16 and 17 but once this is done, the tempo of economic activity would increase. Indeed, because of these Decrees, there has been increased activity on the Nigerian Stock Exchange. This is a good indicator of investors' (foreign and local) positive perception of improving investment and economic climate in the country.

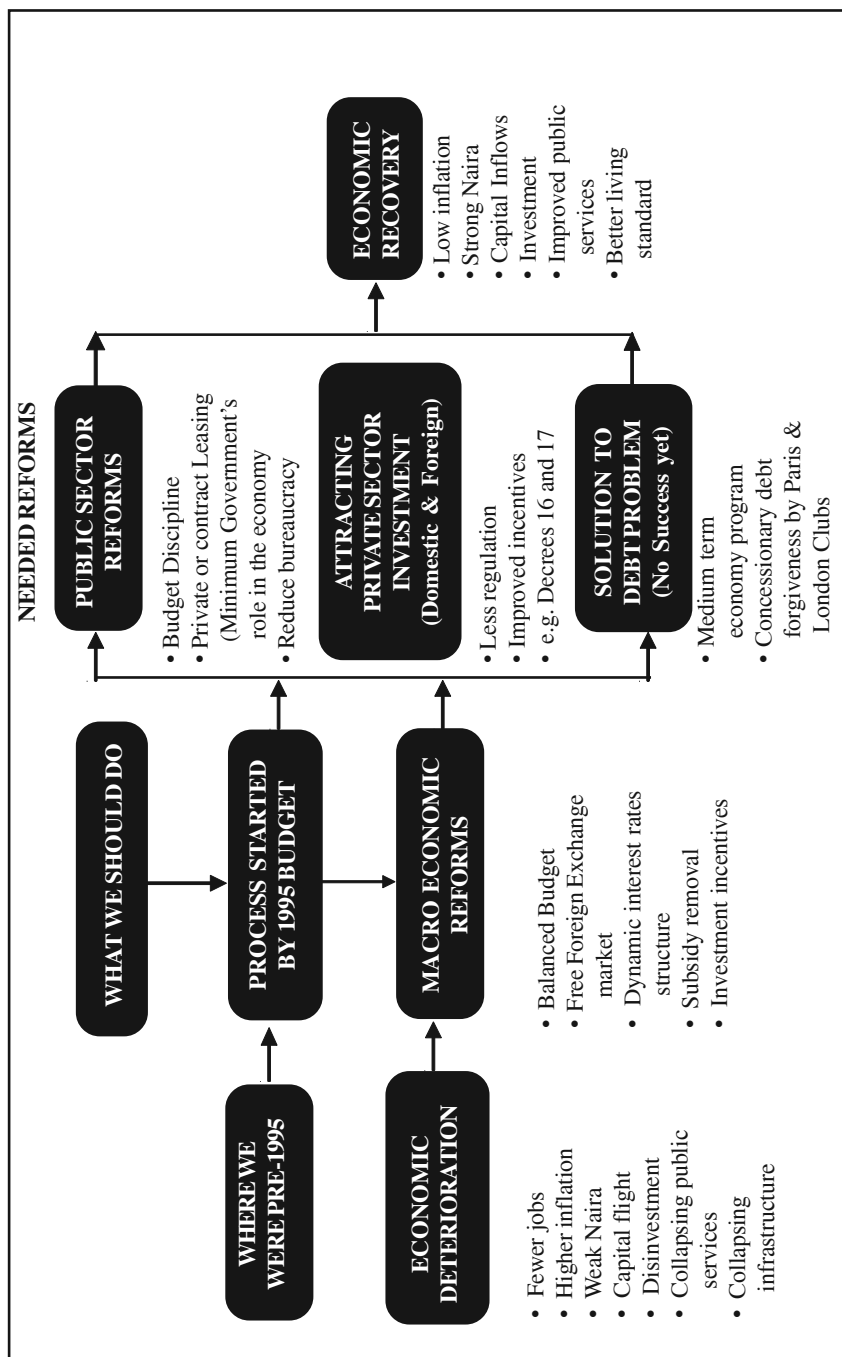


Figure 1.1: The Way Out (From Distress to Progress)

Conclusion

A good foundation has now been laid for the future economic recovery and growth of Nigerians. These policies will require sweat and sacrifice. Results will come only if Nigerians take the pains to make the necessary changes in their habit, stay the course, and consistently continue with the right economic reforms which have been initiated in the 1995 Budget. To have a lasting solution, the country and its people must be prepared to support these reforms and endure the pains that they cause. Everybody has a part to play and everybody should be involved in explaining to the less educated what it takes to become a strong and virile nation. The age of miracles is over, commitment to a worthy cause is imperative. The way out is further illustrated in Figure 1.1. In all of these, always remember that He profitest most who serves best.

Although the text of this chapter was written and presented at the investiture and installation of Rotarian Dr. Bayo Kumolu-Johnson as President, Rotary Club of Victoria-Island, its message is still very instructive today.

Chapter 2

Agenda for Economic Prosperity in Nigeria in the Emerging Dispensation

Introduction

The main objective of this chapter is to steer the lively discussions on a theme that is most apt for the present time in our country. The theme of agenda setting for economic prosperity for our people derives its currency from a special reason. We all would recognize the buzzword of the decade of the 90's without giving it a second thought. That word is globalization, or the global village phenomenon.

Never in the history of man has a single paradigm concentrated minds across the globe as this one has. The temptation is to equate globalization with standardization. That notion, in effect, seeks to equate globalization with the obliteration of the unique values of the people of the world.

This is a fallacy cheaply promoted by those too paranoid to contemplate change in whatever form. The legend of this fallacy has been sustained by the rump of ideologies from the cold divide of the recent past. However, we need not overlook commonly-held concerns about the effects of globalization on the weakest segments of society. Growth and development ought to be viewed from a holistic prism.

Globalization strikes at the core nature of man, and its essence is to continually improve his lot here on earth. At the epicentre of that nature is his reflex for competition - for challenges that made progress possible. Borne on the wings of technology, no part of the world can be described as remote any more. Such that time and space are limitations only to the extent of our own imaginations.

At a recent World Economic Forum (WEF) in Davos, Switzerland, there occurred a dramatic switch in nomenclature. *Globality* is in, and globalization is out. It is all a matter of form; the substance remains the same. And the substance is how to make the incredible material gains from economic progress in the past two decades less of an elitist bequest.

At the moment, the world is too sharply divided in terms of material endowment to represent God's true scheme for mankind. Why has the U.S. economy seemingly defied the laws of economic gravity? Is the Euro the ultimate currency of global economic hegemony in the making? How did the much-vaunted Asian Tigers lose their fangs so precipitately? Does Latin America's renewed economic problems not present us with a virtual *deja vu*? Is Africa, nay Nigeria, still part of the global village? The questions are a plethora; the answers much less so.

Given the theme of this chapter- *Economic Prosperity in Nigeria in the Emerging Dispensation*, a number of observations are necessary if we are not to become impatient or disappointed with the new dispensation whenever it comes.

We must face certain realities which confront us as a nation. Some of these are:

- That the Nigerian economy today is in recession, and is fast heading toward collapse.
- The new dispensation will, therefore, begin on a very fragile note with little prospect for growth.

- The goose that lays the golden egg is dangerously ill. The petroleum industry is collapsing and bedeviled with under-funding, production disruption due to community upheavals and low crude price in the international market.
- The grave incidence of poverty, unemployment, collapsing infrastructure, etc has led to increased operating cost, low standard of living and unrelenting hardship for the citizenry.

Given the above scenario, the economy continues to be hostile to investment capital. Without investments, there will not be economic growth and development, and consequently no job creation. The outcome of these is predictable and not far-fetched in the current state of affairs.

This is the economy the emerging dispensation will inherit. Now before we talk of economic prosperity, we must try and find answers to these problems. Can we solve these problems? The answer is yes if we can muster sufficient political will, plug the leakages in the system and determine to pursue sound and sustained macro-economic policies in an open and transparent manner.

Society must grow in a manner that is internally consistent with the yearnings for progress by the greatest number. Economic prosperity comes from a critical consensus from the component parts of society regarding the most effective and efficient way to grow and develop. Government must continue to set the broad agenda, and do so in an intelligent manner. Perhaps more than any segment of society, the cost of mistakes arising from official decisions comes with a higher multiplier coefficient. The citizenry, on its own part, must be receptive to change – change being the constant denominator of life.

And next is the business community. The role of this segment of society is beyond question. And in the context of globality, that role continues to grow in geometric leaps. It goes beyond the profit motive. As remarked by a participant at the 30th Davos roundtable:

“Business has a role in building a community that goes well beyond giving back. Charity is not enough”. It is becoming obvious by the day that the larger society determines the overall health of the business sector. So that more than ever before, the socio-economic chain remains a virtual round robin.

It is a pleasant development that *“Agenda for Economic Prosperity in Nigeria in the Emerging Dispensation”* is the brainchild of the financial industry. Corporate affairs managers have often been associated with the creation of illusions and imageries. The deliberations that must have thrown up this thought-provoking theme put that fallacy to rest. Waheed Olagunju and his colleagues in ACAMB should be congratulated for this show of originality. A forum devoted exclusively to exploring ways to ensure that the chain remained well oiled ought to attract the closest of attention. Without any doubt therefore, our lead speaker will provide the kind of food-for-thought that this theme should ordinarily elicit.

The original paper was presented as “Brief Remarks” at a seminar organised by Association of Corporate Affairs Managers of Banks held in Lagos on February 16 1999.

Chapter 3

Of Visioning and Development

Introduction

The visioning approach, as a framework for articulating societal aspirations and goals, though new, has proved a more effective and robust alternative to the central planning model used in the past. Examples abound of countries that have used visioning successfully to radically transform themselves within a short time.

The Malaysian Vision 2020 is one example that stands out. Chile is another. These countries that, a few years ago, were standing shoulder to shoulder with Nigeria, have made such giant and revolutionary strides that have today set them a long distance apart from Nigeria. There is an obvious lesson to learn from these cases.

What is visioning?

Some have defined visioning as a process that produces a mental picture of a future state of being that is perceived to be more attractive than the present state. Still others have described it as “dreaming with your eyes open but with your feet firmly on the ground.”

One would like to add to these by defining a vision as the proactive and imaginative response to a continuously changing interdependent and rapidly integrating world, focused on the attainment of a desired future state. Simply put, it is the process

of setting the course of a direction. The desired future is the **vision**, while the process of creating that desired future is **visioning**.

Some notable example of successful visions is President John F Kennedy's vision of America landing a man on the moon in ten years. Another is Malaysia's vision of becoming a fully developed country by the year 2020. It is important to note, however, that visioning is not wishful thinking or "day-dreaming". Although a successful vision must be bold, it should also be attainable.

Power of a vision

A vision is a bold statement about the future. It is inspiring. It appeals to people's emotions and elicits voluntary action and society's collective endeavour. It must, therefore, be shared by all segments of society.

The visioning process

Unlike central planning, visioning adopts a bottom-up approach drawing the full participation of all stakeholders in society. It is the articulation of the aspirations of these diverse segments of society that is distilled into a common vision.

Visioning is all-embracing, touching on all aspects of life and their interrelationships. It is, therefore, not just focused on economic targets alone. The important element of systems dynamics, the interaction of different components of a system, the identification of prime driving forces and patterns of outcome are all essential steps in the visioning process.

Superimposed on these is the art of scenario building. This is a process that seeks to understand and evaluates possible future states and outcomes. It is not predictive, unlike the old development planning models. It only provides a framework for figuring out possible future states of being. It is only then that the likely consequences of each of these alternative future states can be evaluated and alternative responses fashioned to address them.

Scenario building therefore addresses and incorporates future uncertainties that cannot be predicted in the present time.

It is important to note that a major source of strength for visioning is its clear break with the past, current realities and problems. These should not be a hindrance as the focus is in creating a more desired future irrespective of current or past problems. Therefore, unlike traditional development planning that often involves projection of current past performance into the future, visioning first establishes the future and then works backwards.

At this juncture it is important to stress for purposes of clarity that the visioning process does not neglect the past completely. Rather, it sees the past and present as mere guides and not as bases for determining desired future states. Thus, the process often begins with the question: "Where are we now?" But the emphasis is usually on the question "Where do we want to be?" And having established where we want to be, it leads to the next important question: "How do we get there?" This last question deals with the practical questions of implementation, thereby infusing the required measure of reality into the process.

Implementation is an indispensable part of any visioning process because any "vision" that cannot be implemented is not a **vision** but a **dream**. Aspirations that are not matched by results can only lead to frustration, despair and cynicism among stakeholders.

One important quality of the implementation of visioning is the built-in flexibility in the process. Whereas the vision itself is constant and long-term in nature, the implementation of programmes aimed at attaining the vision takes place in measurable intermediattfact that its implementation is diffused throughout all strata of society. Contrast this with traditional development planning that is usually the sole business of government officials. Since vision entails shared aspirations, its implementation often involves all or most groups in society, private, public, non-governmental organisations and individuals.

The Malaysian experience is instructive here. The moment one sets foot on Malaysian soil, one catches the all-pervading infection of that country's Vision 2020. From the immigration and customs officials at the airport, the taxi drivers and other government officials to school children, shopkeepers and ordinary citizens in their homes, one is not left in doubt of the power of the message of Vision 2020.

It brings to the fore the role of mass publicity and public education in the effective implementation of visioning. Mass participation in the formulation of a vision and sustained creative selling of the idea are powerful tools in eliciting the much desired buy-in essential for successful visioning.

Relevance of visioning for the attainment of national development goals

Once a national vision is adopted, the goals flow from it. The vision provides the overall framework for determining and prioritising national goals. Whereas the vision is a destination, the goals are the milestones that tell you how far you have gone on the way to your destination. They are measurable yardsticks of performance, the attainment of which advances the nation closer to its vision.

An example of how vision drives national goals can be illustrated here. Assume that a developing country adopts the vision of becoming a full-fledged developed country in 30 years. This is the national vision which is desirable and accepted by everyone or most people in the country. Herein lies the power of visioning: because it is desirable, people accept it. Who would not want his or her country to become fully developed? Once the vision is adopted, relevant goals would then have to be set and the attainment of which would lead to a realisation of the vision.

For instance, to become fully developed, the country must match or exceed the performance of other developed countries in most

areas of activity; size of GDP, income per capita, structure of GDP in favour of manufactured goods and services, export of non-primary goods, literacy rate, life expectancy, access to clean water and sewage, dietary standards, access to telephones etc. There would be quantifiable goals for each development index set along the way up to the end of a thirty-year period, with constant review of performance against targets.

The important point here is that because of the existence of a vision, goals are not set arbitrarily but in line with the national vision. This approach is more likely to succeed because goal setting is based on a long-term view. Also, the discontinuities of the past are unlikely to persist since the common destination is known. The performance of every leadership can then be judged on the basis of how far they have moved the stated goals towards reaching the ultimate destination, the vision.

With a shared vision, it is then easier to build consensus on national goals once such goals derive from the national vision. Such broad-support also leads to broader participation in the implementation of programmes and policies for the attainment of national goals. This is one of the major strengths of the visioning approach, the power to elicit voluntary, broad-based participation from across the entire stakeholder spectrum.

Vision-based goals also have the advantage of implementation flexibility. The long-term horizon and non-rigidity of the framework allow for goal modifications along the way in the light of new experience and changing circumstances. Goals are not abandoned altogether, once obstacles emerge, as in the rigid old development planning model. Rather, without deviating from the ultimate destination, targets can be changed or programmes modified to incorporate new realities. This approach assures continuity at a realistic and affordable pace.

Nigerian visioning experience

There is an ongoing Vision 2010 programme in Nigeria. The Vision 2010 Committee which was set up by the then Head of State, Gen. Sani Abacha, was inaugurated in November 1996. Membership of the committee was broad-based, cutting across all major national stakeholder groups, including public and private sector groups, religious and traditional leaders, women, youths and labour, the military, foreign investor groups, etc. Also, inputs were drawn from numerous individuals and institutions.

The committee worked relentlessly and completed its assignment in record time. Practically all aspects of the Nigerian national life were examined and the report was submitted to the Head of State on September 30, 1997.

Vision 2010 holds so much promise for Nigeria. It provides the country a major opportunity for a fresh start in its efforts at building a strong, united nation, one that offers every citizen the hope and opportunity for self-actualisation, a country that can fulfil its promise as the giant of Africa and the pride of the black world. This vision will materialise with successful implementation of the committee's report, backed by strong leadership commitment and broad national support and participation. It therefore needs to be effectively sold to the entire people of Nigeria.

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Chapter 4

Achieving A Nation's Vision Through Research and Development

Introduction

Research and Development

This theme is topical given Nigeria's current endeavour to develop a vision for itself by the year 2010. As we are all aware, industrialisation is one of the most important steps towards the attainment of a lasting economic prosperity. The realisation of such a vision depends on the ability of Nigerians to pull the resources of the entire scientific, technical and business community together to make effective use of the country's natural endowments in order to produce goods and services that could compete well in the world market place.

Achieving the Nation's Vision through Research and Development

Industrial development in most nations was attained through the development of three independent but interactive capabilities. These are the development of infrastructural facilities, technical manpower and raw material capabilities. Of these three, Nigeria can be said to be well endowed in terms of raw material capabilities. However, the country's ability to fully harness its abundant raw materials depends on the availability of appropriate infrastructural facilities and competent technical manpower. Partly

for these reasons, most of Nigeria's raw materials are exported unprocessed at very low prices. On the other hand, effort to encourage value-added exports by setting up some processing industries is still heavily dependent on imported technology.

The Raw Material Research and Development Council (RMRDC) was established purposely to check this problem. In particular, it was established to support and expedite industrial development and national self-reliance through the optimal utilisation of local raw materials as inputs for Nigerian industries. It is good to note that since its inception the RMRDC has been directing its activities at improving the country's capability to process agricultural and mineral raw materials.

Industrialisation requires sustained efforts by both the public and the private sectors, in not only research and development but also human resource development. Presently, the private sector is almost totally dependent on imported technology whether through capital embodied technology or licensing and other technology contracts. Hence Nigerian industries need to seriously address the role of research and development as it holds the key to a leading edge in competitiveness in terms of cost, quality and delivery. To this end, the private sector has to initiate joint-research projects with institutions of higher learning and research institutes to create an interactive and beneficial relationship. Such initiatives are currently yielding good results in most developed countries, and have proved to be a reliable way to attract private sector funds to universities and research institutes.

Strategies for Commercialisation of Research and Development Results

Nigeria's current efforts in research and development place more emphasis on research and relatively little on the development of the capacity for innovation and commercialisation of research results. A large commercial gap thus exists between the laboratory

and the market place. This gap is caused by insufficient facilities for commercialisation, such as market assessment, marketing channels, business management and venture capital. To close this gap research and development must be treated as a continuous process of research, innovation and commercialisation. In other words research and development efforts must lead to the development of new products for which markets must be found. To ensure this, the institutional, legal and administrative framework must be strengthened through quality and design enhancement programmes. The RMRDC has made a commendable stride in the commercialisation of research and development products through efforts that led to the establishment of the National Risk Fund Plc and the provision of a legal framework for venture capital operation in the country. The National Risk Fund was established to encourage investors with limited resources but desirous to set up new production lines or expand the existing ones based wholly or partly on indigenous technology and raw materials. The RMRDC needs to go further to ensure the success of the National Risk Fund by establishing a permanent link between inventors and local fabricators of equipment and components. Fora such as seminars, workshops, colloquia should be encouraged to enable fabricators of equipment and machinery to display their talents for possible adaptation by interested entrepreneurs and investors. This has to be complemented by investment in pilot-plant, prototype development, industrial design and packaging facilities or capabilities.

Impact of Small-scale Industries on Industrial Development

The impact of small and medium scale enterprises on Economic development in Nigeria has been constrained by three major factors: high production cost, high business risk and low level of capitalisation. Though the liberalisation of the exchange rate has increased the cost of production, it is actually intended to be an incentive to look inwards to develop, through research and innovation, Nigeria's technical capability in the design and

fabrication of equipment, components and machinery, as well as, increase the utilisation of the country's local raw materials. This could lead to enhanced competitiveness and reduced business risk for most small- and medium-scale industries. Furthermore, there is a need to strengthen the capital base of small - and medium – scale industries by exploring ways of increasing their reliance on the capital market as a more viable and stable source of funds. Only this will ensure their long term survival and hence enable them to make a positive impact on the economic development of the country.

The Way Forward

Nigeria needs to be an efficient competitor in the global arena if it is to realise its Vision for the year 2010. For this to happen stakeholders must renew the country's commitment to research and development in areas the country is naturally endowed, particularly, agriculture, petroleum and solid minerals. For instance, given Nigeria's comparative advantage in agriculture, there is no reason why the country should not aim at becoming one of the leaders in biotechnological research. If it can achieve this, then it will open tremendous opportunities in the food industry, healthcare and medicine. Also it is inexplicable why Nigeria cannot develop expertise in advanced materials technology in such areas as petrochemicals and solid minerals. However, in exploring these research areas, the RMRDC and other research institutions should focus on energy, raw material, and saving innovations, as this is the direction towards which the world is moving.

The original text was delivered as an Address at the Colloquium on Research and Development held at Abuja on 12th December, 1996.

Chapter 5

Promoting Foreign Investment in Nigeria

Introduction

Foreign investment has always played and continues to play a significant role in the economies of developing countries. Emerging markets have recently been rediscovered by international investors and huge amounts of capital are now pouring into the attractive ones among these countries. It is estimated that in 1995 alone, about US\$165 billion of foreign investment went into emerging markets, mostly in Asia and Latin America.

Africa has been largely left out of this phenomenon. The reasons for this are not difficult to find. The investment environment in most African countries had over the years been unfriendly and unattractive due to restrictive and growth-inhibiting policies. Besides, foreign investors were viewed with suspicion, and were regarded as exploitative.

But things are now changing. Most African countries have embarked on economic reform programmes, albeit in various degrees. The serious reformers are beginning to get the attention of the international community. Africa's growth potential is enormous and has always been recognised. The continent is richly endowed with natural resources. It is currently at the beginning of the development spectrum and so has a lot of scope for growth.

Nigeria remains a symbol of Africa's potentials with its huge, diverse and largely untapped resources; large market; large pool of trainable manpower; and resourceful and enterprising people. Hence the country can easily be turned into an investor's paradise.

The present federal administration in Nigeria is introducing a number of positive policy measures aimed at liberalising the economy and making it investor-friendly. Policy consistency and prudent fiscal management have no doubt brought about macro-economic stability. For the first time in the recent history of Nigeria, the exchange rate of the naira has remained stable for about two years (1995 and 1996) now. Furthermore, interest rates and inflation have actually been declining. When one adds the fiscal and other investment inducing incentives contained in the 1995 and 1996 budgets, the recent decapping of interest rates and the abolishing of sectoral allocation of credit, it is then easier to appreciate how far Government has gone in providing a conducive environment for investment. These and other such measures taken by the Government so far are very courageous indeed. One is disappointed to note, however, that investors, both foreign and local, have not responded to Government's far reaching policies and incentives as would be expected. Nigerian investors would have to take the lead in investing in the country to encourage foreigners to do the same.

It must also be noted that years of under-investment -and disinvestment have resulted in a large gap in the nation's investment stock. The resource needs of the country in the areas of industry and infrastructure are so large that domestic sources, such as the capital market, cannot cope with it. The country must therefore begin to look to the international markets to fill the gap as has been the case in other emerging markets. As has been noted earlier, the pool of global investment capital is big and growing by the day, and Nigeria as a member of the world community, should be in a position to tap into it.

But to be able to do this, those concerned must package and market the country appropriately and aggressively. Countries, just like companies and products, have to be marketed. There is a growing competition from the growing number of emerging countries for the global resources available. Foreign investors have to be wooed and retained like customers. In this regard, Nigeria would need to be aggressive and the process has to begin without delay.

MIGA has acquired wide experience in helping countries to organise and implement investment promotion services using effective strategies. Countries such as Nigeria that are yet to embark on such schemes have a lot to learn from MIGA about how other countries have done it successfully. They are also in a position to advise on what foreign investors want. In all these, the dissemination of information about Nigeria's investment climate and the incentives available is the key. And this has to be done in a very professional way.

Government's laudable efforts must be complemented by the private sector in order to achieve the collective goals of the nation. It is interesting to note that there is a growing partnership between the public and private sectors in decision-making and implementation of economic policies.

Government needs to embark on a well-articulated and targeted investment promotion campaign abroad. Export Processing Zone in Calabar needs to be completed and commissioned. The Government needs to complete and launch the Medium Term Economic Programme in order to open the way for debt relief and encourage investment.

The text of this chapter was originally presented as a Welcome Address at a workshop on "Promoting Foreign Investment in Nigeria" held at Abuja on October 23, 1996.

Chapter 6

Integrating of Petroleum Industry and the Rest of the Economy

Context/Perspective

The Nigerian Petroleum Industry is made up of the upstream and downstream sectors. Historically the industry has remained vibrant and responsible for a greater proportion of GDP.

National production/services are made up of contributions from both the indigenous and the multinational oil companies. There are currently over thirty indigenous licence holders at various stages of upstream asset development. There are also several indigenous participants in the downstream sector where a substantial proportion of the business is performed by companies with multinational participation.

In the marketing companies, supply and reliability of products have been of major concern as product scarcity remained unabated in a country with four refineries. In the upstream sector, funding has been untimely and inadequate since 1993. In fact, as at April 1997, call arrears had peaked at US\$1.1 billion with serious budget inadequacies for funding of planned and on-going projects. The petroleum sector is said to be plagued by policies that are inconsistent with the desire of government and other stakeholders to improve and increase crude oil and gas reserves, investment climate and overall in stability within the sector and the economy.

The practitioners yearn for more effective product distribution across the country, appropriate pricing for products and stability in operations.

All these require genuine efforts and total commitment not only from government but also from other stakeholders including the oil companies, the private sector and individuals. They require pooling together of efforts towards ensuring a congruence of objectives.

As each stakeholder's interest differs from those of the others, there is need to synchronize each interest and align them with overall economic, political and societal interest. Decision-makers in all sectors must have a balanced view while their actions must be well-informed and understood before consensus can be achieved by all stakeholders.

Integrating Stakeholders

In considering the integration of the petroleum industry with the rest of the economy, there is the need to, first of all, identify core objectives of the stakeholders and fashion out how best to integrate each key objective into the national economy.

These objectives include:

- Government's desire to increase revenue from oil and gas products.
- Effective management of relationships with oil producing communities.
- Achievement of at least 50% Nigerian or local content including Nigerianisation of operation.
- Operation of oil and gas facilities in concert with the environment such that fishing, farming and other local commercial ventures are not adversely affected.
- Stable, sufficient and effective distribution of petroleum products.

- Adequate funding for oil and gas operations but at the same time ensuring that other sectors of the economy are not crowded out.

Government Funding Mechanism

As indicated earlier the petroleum industry continues to contribute substantially to the country's GDP. In order to meet the needs of population growth which is currently at 2.8% per annum, government requires significant investment in infra structural development such as electricity, water, roads, telecommunication, health etc. The hydrocarbon resources therefore need to be exploited to their fullest. The upstream petroleum sector must grow through increase in production capacity and ultimately increasing the country's share of OPEC and world energy markets.

This recommended growth in investment is expected to achieve the following benefits.

- increased activity in the oil supply industry, and thereby increased employment opportunities
- availability of funds for education and infrastructure
- attractive investment climate to foreigners

It therefore stands to reason that significant attention must be placed on this sector in terms of deployment of resources to ensure steady increase in reserves and revenues. For this reason, cash call for funding on revenue-yielding investment has to be put on a higher level of importance than cash stream from where budgets of all tiers of government are funded. "Cash Call" funding ensures that the amount invested today guarantees future production and reserves. This is better than inadequate funding that will not sustain production replacement and would therefore result in production decline.

In order not to allow this cash allocation process crowd out other competing sectors of the economy, government could allow other

Nigerian investors and co-partners under the joint venture arrangements or emphasise the production sharing contracts where private sector participation is unavailable .

Effective Community Relations

The past few years have witnessed a lot of disruptions to oil production by oil communities due largely to the following reasons:

- alleged cases of environmental pollution including destruction of fresh water and farmlands
- non-employment of indigenes
- exploitation of natural resources without value added to the communities such as power supply, water, roads, etc.

In order to ensure integration of the petroleum industry, it is necessary that the oil communities coexist harmoniously with the oil companies and ensure disturbance free operations. It is the responsibilities of the industry to protect the people and the environment in all locations in which there are petroleum exploration and production activities.

The industry should also encourage programmes that will ensure that community members feel a sense of belonging and show commitment to protect oil production installations.

Increased Local Content in Petroleum Production

It has been determined that local participants in the production process are less than 30% as the local supply industry is weak. To achieve significant integration, there is need to encourage local entrepreneurs through the provision of incentives that will take advantage of cheaper local costs whilst meeting international standard. There are value added advantages to this which includes employment opportunities, technology transfer and revenue generation for the local communities.

Development of Commercial Opportunities that will Guarantee use of Gas

Gas flaring is still a common practice in Nigeria as over 2.0 billion cubic feet of associated gas is flared through exploitation in industrial power generation. However gas is not available to large industries as the local gas market remains in its infancy. This calls for an elimination of gas flaring. Elimination of gas flaring can be achieved and sustained by the development of projects which utilise gas as fuel. It is necessary for government to develop a gas utilisation programme through continued development of country wide infrastructure that will deliver gas to major industrial sectors of the country. It is also important that a price mechanism be developed that will be attractive to both producers and users as alternative to other energy sources.

The butanisation programme, if vigorously pursued, is expected to reduce significantly the cost of power generation by industry and therefore reinforces people's desire for more competing product prices.

Stable, Sufficient and Effective Distribution of Petroleum Products

From February to August 1997, there was large scale shortage of petroleum products nation-wide largely associated with:

- breakdown in distribution mechanism
- shutdown of the refineries
- lack of funding etc.

The important point that should be emphasised is that product supply and distribution must be stable and predictable to avoid disruption to operations in other sectors of the economy.

In order to achieve success in this area, it is important that the interests of every stakeholder be put into context. First, the refinery operations must be adequately funded and managed and

maintained according to schedule. Second, the distribution facilities such as pipelines must be adequately maintained and secured from sabotage by aggrieved local community relations.

Furthermore, adequate strategic storage facilities that can store up to six months requirement must be readily available to minimise disruption in socio-economic activities.

Conclusion

The contribution of the petroleum industry to the nation's economy has been enormous and for a time will still continue to contribute significantly to other important sectors such as agricultural production, infrastructural development, industry and general commerce. The task before the public and private sectors is to ensure that no sector benefits unduly and none suffers neglect. Efforts must be complementary with the national aspirations well in the forefront. Government must continue to seek private sector participation in the Nigerianisation and effective community relations in all its endeavours.

The original text of this chapter was presented as a Keynote Address at a workshop organised by NAPE, on August 20, 1997.

Chapter 7

Liberalisation of the Nigerian Economy: Opportunities for West African Trade and Investment

Introduction

The liberalisation of the Nigerian economy offers the West African sub-region tremendous opportunities for increased trade, growth and development.

This chapter analyses the opportunities offered to the West African sub-region by the liberalisation of Nigerian economy with specific reference to 1995 Federal budget. This topic is quite appropriate at this time given that all the regions in the world are currently looking at the ways of achieving more intra-group cohesion, cooperation and trade leading ultimately to economic union. European Union and North America Free Trade Area (NAFTA) come readily to mind. For us on the West Coast of Africa, the game is indeed yet to start and Nigeria as a major country in the sub-region is expected to play a dominant role.

The analysis is in three parts. The first part is an examination of the policy prior to the 1995 budget. This is followed by the key elements of the 1995 budget and the stance of economic policy that qualifies the economy as a liberalised one. Finally the impact, if any, of these issues on trade and investment opportunities in West Africa are investigated.

Prior to the Structural Adjustment Programme (SAP) era (1986 - 1992), Nigeria enjoyed a reasonable level of economic buoyancy owing to sharp increases in oil revenue, especially in the 1979 era. The country was awash with foreign exchange and the real value of money and indeed, the national value system took a hiding. As the country became richer and the resources at the command of government grew beyond expectation, it became very daring and profligate in its spending and spending pattern. Economic mismanagement was the vogue. As government expanded its dominance in the socio- economic life of the country, the structure of relative prices and wages changed against agriculture and the manufacturing sectors. Nigeria became a nation of consumers and almost hundred per cent import dependent since it was cheaper and easier to import rather than produce locally.

By the beginning of the 1980s, the price of crude oil in the world market suffered a major decline. Since the country was then totally dependent on crude oil sales for its revenue and foreign exchange receipts, the financial resources available to government declined correspondingly. Unfortunately, both the rate and level of government spending did not respond speedily to the grossly reduced level of government revenue and as a result, the country amassed huge fiscal and external deficits. To overcome this problem, government resorted to borrowing via ways and means advances to fund its fiscal deficits and at the same time whittled down the country's external reserve. It introduced import licensing and foreign exchange control. The situation deteriorated with each control measure the government imposed.

By 1986, the government realised that the economic situation in the country required a major shift in policy – from a controlled to a deregulated economy. This was the genesis of Structural Adjustment Programme (SAP) which was introduced in 1986. It had the liberalisation/deregulation of the economy as its key element and aimed at restructuring and diversifying the productive base of the economy with a view to reducing dependence on the

oil sector and imports, achieving fiscal balance and ensuring balance of payments viability, laying the basis for sustainable and non-inflationary growth, reducing unproductive investments in public sector operations, and intensifying private sector growth potential.

However, as at the time the SAP era ended on 10th January 1994, none of the objectives has been fully realised principally owing to poor implementation. Rather, the economy witnessed massive unemployment, high rate of inflation, high external debt overhang, and reduced living standards etc. All these difficulties were wittingly or otherwise attributed to SAP or to deregulation. In fact, as at that time (and even till today) the word ‘deregulation’ has conjured a negative reaction amongst the Nigerian elite and politicians.

The huge outcry by the vocal Nigerians – labour, manufacturers, importers, etc – led to complete policy reversal by government via the 1994 budget.

The 1994 budget returned the economy to a full-blown regulated regime. Had the 1994 budget worked as intended, there would have been no need for the shift in policy, as was made in the 1995 budget.

Although it held back in some crucial areas such as interest rate management and foreign exchange management, etc from full deregulation, by all estimation, the 1995 budget is very radical in the policies it initiated. It abolished the 1962 Exchange Control Act, and the Enterprises Promotion Decree. Again it introduced an autonomous foreign exchange market and attempted to minimise government role in the economy via the lease contracting of key industrial, commercial and infrastructural projects. It also indicated government’s willingness to repeal all laws and remove all impediments to the free flow of foreign investment and funds into Nigeria.

The impact of these measures could be far reaching if well implemented to the letter. By the abolition of the Nigerian

Enterprises Promotion Decree and 1962 Exchange Control Act, the government has opened the economy to the international business as it has never been done before.

Now, given the liberalised position of the Nigerian economy, what impact, if any, could it exert on the sub-region in terms of trade and investment promotion? Before one assesses this, it is important to briefly look at the West African sub-region and its characteristics.

Essentially, the West African sub-region is made up of nineteen countries with different levels of economic development and different socio-economic structures. The sub-region has the highest concentration of least developed countries in the world and therefore a sub-region where the need for economic development cannot be overemphasised. It has a rapidly rising debt service obligations and declining inflow of financial resources. The West African sub-region is characterised by macro-economic rigidities which are so endemic that inspite of wide ranging reforms undertaken by the various governments, economic growth and development still remain unimpressive. It has a multiplicity of currencies, almost all of them inconvertible. Inconvertibility of currencies impedes the free flow of goods and services and capital movements and transfers. Another critical feature of the West African sub-region is its tenuous political stability and constant policy reversals. Despite the recognition of the need for harmonised and coordinated national and economic management policies supported by common approach to economic problems, this has continued to be a false dream, owing to lack of strong political will and fiscal discipline among its ruling class. The peculiarities of the sub-region as at present are neither investment nor trade friendly.

These problems are not really new. In fact the Heads of State of the sub-region as well as the Committee of Governors of the Central Banks have all identified these problems and passed

resolutions aimed at removing these constraints. In 1992 for example, the Heads of State of the sub-region met and in order to enhance industrial cooperation, adopted a single minimum limit of 25% for indigenous participation in the equity capital of enterprises producing industrial goods for intra-community trade. They also adopted the recommendation of the ECOWAS Central Bank Governors to transform the West African Clearing House into a specialised agency of the community to be known as West African Monetary Agency (WAMA) in order to enhance monetary cooperation within the region. They not only resolved to harmonise and coordinate their macro-economic policies but also to evolve a common approach to solving their socio-economic problems.

To boost trade - formal trading – they adopted the so called Minimum Agenda for Action which provided for, among other things, the free movement of persons and goods, simplification of transit and customs procedure, increased use of national currencies in intra-community trade and payment for transactions, reduction of check-points on international highways, etc.

The implementation of these laudable policies has been grossly limited. However, for meaningful harnessing of the potential of the sub-region, all these must be in place at least to a reasonable degree.

Taking everything into consideration and realising how difficult and seemingly intractable the problems confronting the European Economic Community appear to be (seemingly frustrating all their concerted efforts) one wishes one could be positive in believing that the liberalisation of the Nigerian Economy would activate or boost investment and trade flows in the West African sub-region. The best one can do is to continue to dream until these countries demonstrate strong political will to remove every obstacle that prevents this sub-region from becoming a strong economic bloc.

The dream however must not be allowed to die. Given the population of Nigeria and its abundant actual and potential material and natural resources, the actualisation of the dream depends largely on Nigeria increasing and improving its industrial and technological capacity. In addition, it must be recognised that in situations where every country in the sub-region is acting independently and taking actions in diverse directions, keeping the dream alive requires the increasing involvement by the government in a collaborative manner with the private sector in order to achieve the desired stability. Thus the achievement of the dream cannot be done either alone, in isolation from; or in competition with others.

This chapter was based on a paper originally presented at the Quarterly Luncheon of the Enterprise Network of West Africa, Nigeria Chapter on March 22, 1995.

Chapter 8

The Dual Exchange Rate Policy and its Implications

Introduction

A dual exchange rate system refers to a situation whereby a country uses two exchange rates for settlement of foreign exchange transactions. For any transaction, the applicable exchange rate will depend on the official classification of the transaction. The general practice in this regard is that activities that the country wants to encourage are allowed to buy foreign exchange at a lower exchange rate or to sell the foreign exchange they earned at a higher exchange rate. The opposite is the case for activities that the country wants to discourage. In the light of this, a dual exchange rate system constitutes a series of taxes and subsidies on foreign transactions.

Nigeria has had three marked experiences with the dual exchange rate policy. The first was between August and November 1971, following the unilateral suspension of dollar convertibility by the United States of America. During this short period different rates were applied to three categories of US dollar transactions: a fixed rate of N£ 1.00 to US\$2.80 was applied to Government transactions; another fixed rates of N£1.00 = US\$2.78 (selling) and N£1.00 = US\$2.82 (buying) were applied to non-oil export proceeds, transfers by statutory corporations and payment for non-government imports; and a floating rate was applied to other transactions. The idea was to insulate the government and priority activities from the uncertainties of the market. But when it became

clear that this was not likely to be realised, the system was phased out and the country returned to the old parity equivalent.

The second experience was after the introduction of the Structural Adjustment Programme (SAP) in September 1986. The programme was introduced to chart a new course in macro-economic management. In particular, the Structural Adjustment Programme was aimed at transforming the economy into a highly deregulated one where market forces would be increasingly relied upon to direct economic activities. The most prominent feature of the Structural Adjustment Programme was the institutional framework for achieving a realistic exchange rate. Initially a policy of dual exchange rate – the First-tier and the Second-tier Foreign Exchange Markets – was introduced. However, the supply of foreign exchange lagged behind the demand at the second-tier market. As a result, the parallel markets, where the exchange rate was at a premium of about 50 per cent, flourished. Meanwhile the first-tier market was also under pressure because of the subsidy it provided. It was also believed to have led to some cases of round-tripping. Hence from time to time the first-tier rate was constantly adjusted upwards to ease the pressure and in July 1987 the first-tier rate equaled the second-tier exchange rate and the dual exchange rate system was abolished.

From 1987 to December, 1993 Nigeria maintained a single exchange rate system but several exchange determination methods were applied to keep demand within the limited foreign exchange supply. Consequently, a large parallel market premium persisted, as a result of the continued misalignment of the naira exchange rate. However, rather than correct this disequilibrium the government in 1994 pegged the exchange rate at #21. 996 = US\$1. 00, thus shifting the policy thrust from further liberalisation and deregulation to partial regulation.

Despite various government efforts, the exchange rate policy during

1994 proved difficult to manage in view of the decline in foreign exchange inflow. In particular, actual receipt of foreign exchange amounted to only \$6.12 billion, indicating a decline of 24.7 per cent of the budgeted amount and 20.3 per cent decline over the amount received in 1993. Consequently the policy was abandoned in 1995 in favour of another dual exchange rate policy.

Objectives of the Exchange Rate Policy in Nigeria

Since the introduction of the Structural Adjustment Programme, the objectives of exchange rate policy in Nigeria have not changed significantly. The general objectives are basically the same as those of economic policy. However, some specific objectives can be identified. The specific short- and medium-term objectives of the exchange rate policy include the short-term objectives of correcting the over-valuation of the naira exchange; eliminating the parallel market premium thereby enlarging the scope of legitimate foreign exchange transactions; and ensuring stability and sustainability of the exchange rate. The medium-term objectives are achieving balance of payments stability; reduction of the dependence on imports and oil exports; diversification of the export base; reduction or elimination of incidence of capital flight; and the encouragement of local production of inputs.

Appraisal of the Current Dual Exchange Rate Policy

Since 1995 the policy thrust of foreign exchange management has been that of guided deregulation. In order to achieve a market-determined and stable exchange rate regime, a dual exchange rate policy was adopted consisting of the autonomous and the official foreign exchange markets. Authorised banks are the major participants in the Autonomous Foreign Exchange Market (AFEM), with the CBN only intervening in the market. The CBN intervention fund was to be sold directly to end-users through selected banks, while those banks not selected could still participate in foreign exchange dealings at the autonomous market.

The official exchange rate was retained at $\text{N}21.996 = \text{US}\1.00 , while all foreign exchange receipts were centralised in the CBN. The official rate was adopted strictly for bonafide government transactions. This dual exchange rate policy had been retained since 1996. In appraising the performance of the current dual exchange rate policy two questions come to mind:

- (i) Have the objectives of the policy been achieved?
- (ii) Should government enjoy a subsidised exchange rate?

In assessing the impact of the dual exchange rate policy on the economy, it is necessary at the outset to note that no empirical tests have been conducted to isolate the effect of exchange rate changes from those arising from other policies, especially monetary, fiscal and sectoral policies. Hence only qualitative statements can be made about the effect of exchange rate on some of the medium term objectives of the policy.

The short-term objectives of the current exchange rate policy were achieved almost immediately. In fact, the introduction of the dual exchange rate was nothing but the reintroduction of the Autonomous Foreign Exchange Market (AFEM) which was abolished in January 1989 and the maintenance of the existing fixed exchange rate as the official rate. The only difference is that the CBN now intervenes to keep the market well supplied with foreign exchange thereby ensuring its stability. Since the introduction of the (AFEM), the supply of foreign exchange from both official and private sources has been increasing steadily – from \$2.69bn in 1994 to \$2.73bn in 1995 and \$2.98 in 1996. Of particular interest is the fact that this increase is mainly due to the increasing flow of foreign exchange from private sector sources, which rose from \$735. 1 million in 1994 to \$1.134 billion in 1996 (see Table 8.1). Due to the ability to meet foreign exchange demand, a substantial measure of stability has been achieved in the foreign exchange rate ($\text{N}80 - \text{N}82.5 = \1.00).

TABLE 8.1: A Summary of Macro-Economic Indicators: 1994-1996

	1994	1995	1996
Foreign exchange rate:	N21.996	N22/82	N22/80
Official/Autonomous = US1.00			
Parallel foreign exchange market premium	263.36%	0%	0%
Government funding of FEM	\$1.96bn	N/A	N/A
AFEM intervention by CBN	N/A	\$1.74bn	\$1.847bn
Private sector funding of AFEM	\$735.1M	%984.7bn	\$1.134bn
Foreign exchange utilization by the public sector at official rate	\$1.521bn	\$2.458bn	\$1.475bn
AFEM Intervention profit	N/A	38bn	62bn
Balance of payments surplus (deficit)	(N42bn)	(N195bn)	N/A
Budget surplus (deficit)	(N81bn)	N1.00bn	N37bn
Inflation rate (December)	57%	72.8%	28%
Average prime lending interest rate	21%	21%	14.5%
Oil revenue	\$7.282bn	\$7.899bn	\$10.89bn
Non oil revenue	N41.7bn	N81.bn	N108bn
External reserves	\$1.65bn	\$1.413bn	\$4.086bn
External debt	\$29.42bn	\$32.58bn	\$28.06bn
Gross Domestic Product growth rate	1.3%	2.2%	3.2%
Manufacturing capacity utilization	30.4%	29.3%	32.5%

However, with the aforementioned caveat in mind, one can say that the medium-term objectives of the dual exchange rate policy are yet to be achieved. The external sector was under pressure in 1995, both the current and overall account balances deteriorated further to deficits of N254.36 billion and N195.22 billion, respectively. Although there was improvement in export earnings, relatively higher level of imports coupled with the sharp increases in net out payment for services accounted for the current account deficit. There was also further accumulation of debt arrears as the nation did not meet its obligation as they fell due. However, the impressive build up of the nation's external reserves indicates an improvement in the external sector. This would mostly likely be the case if one notes the massive reduction in public sector utilisation of foreign exchange at the official market (down by \$1.00 billion) and the increase in private sector supply of foreign exchange to the autonomous market.

The other medium term objectives are all related to increase in real output and hence can be appraised together. In this regard, the omens of the dual exchange rate policy on the manufacturing sector were not good enough. Generally, the slight increase in GDP growth rate from 2.2% to 3.25 % was far below the target set at the beginning of 1997, for instance. Also industrial capacity utilisation only made a slight improvement. It is arguable that the increase in capacity utilisation is due to exchange rate stability. It is also possible that a much larger increase could have been recorded if aggregate demands were raised. The generally low purchasing power in the country is a definite drag on capacity utilisation as inventory must decrease for production to increase.

Although the IMP's Articles of Agreement prohibits members from engaging in multiple currency practices; the Fund tolerates multiple exchange rate systems only if they are simple, flexible, pragmatic and temporary. The major reasons for the adoption were to:

The Dual Exchange Rate Policy and its Implications

- change the composition of a country's exports by purchasing certain export proceeds at subsidised exchange rates.
- change the composition of a country's imports by selling foreign exchange at subsidised rate to:
 - importers of essential raw materials, consumer and capital goods so as to raise real wages and redistribute income;
 - government in order to reduce expenditure on essential imports and capital payments;
- change the composition of a country's imports by discouraging certain imports so as to protect local industries and control capital flight.

Given the above reasons for adopting a dual exchange rate policy and the peculiar economic situation in most developing countries, one hardly finds a lot of problems with the policy. However, a closer look at the above reasons will show that there is no theoretical basis of retaining the dual exchange rate policy in the 1997 budget. The present system does not in any way reduce government expenditure on imports and capital payments because the foreign exchange that the government utilises is also supplied by it at the same rate. Hence it is a case of government subsidising itself. On the contrary, the existence of such subsidy induces excess utilisation of foreign exchange by the public sector, which adversely affects the level of external reserves.

The main implication of using the official exchange rate to translate government accounts is that real market worth and financial implication of every dollar earned or spent is not captured in the budget. If the budget is translated using the autonomous exchange rate, this distortion will disappear and it will be possible to see the true level and structure of government revenue and expenditure. Besides, if the distortion is eliminated it will then be possible to understand Nigeria's national accounts and compare it with those of other countries. At the moment it is not possible because two rates are used in translating the budget figures. Thus this leads to the current situation in which government makes exorbitant "profit

from AFEM transactions” out of its corporate and private citizens. In particular, N62 billion was “earned” in 1996. This represents 24.40% of total Federal Government revenue. The claim that this tax reduces the level of liquidity in the economy is not correct because it is included in the Federal Government Consolidated Account and it is expended back into the economy. The only victims here are the citizens.

The government being the dominant supplier of foreign exchange can afford to finance its level of demand whether the exchange rate is N22/\$1.00 or N80/\$1.00 because both the revenue and the expenditure sides will be affected. Consequently, it would appear that if the official market is abolished, the level of public sector demand for foreign exchange may not fall and consequently the naira may not appreciate. However, there is the problem of pressure on government by those wishing to obtain foreign exchange at the lower rate, and government may be tempted to succumb. Apart from this, some of the public sector utilisation could also be subsidy-induced, and this seems to be the case up till when the official rate was scrapped. Hence abolishing the official market will eliminate such demand for foreign exchange and lead to an appreciation in the naira exchange rate. In this case, it is desirable to abolish the official foreign exchange market. Furthermore, if the country has sufficient foreign exchange reserves to support a stronger naira, according to official sources, then abolishing the official foreign exchange market will further reduce the cost of supporting a stronger naira by rationalising public sector demand for foreign exchange. In fact there is no better time to adopt policies that will enhance the value of the naira than now. There is currently a squeeze in real income leading to a low level of demand for manufactured goods. Given the level of import dependence of this sector, one obvious way of increasing output would be to abolish the official foreign exchange market so that the resulting appreciation in the exchange rate would reduce prices and stimulate demand.

But will the naira become stronger if the official market is abolished, given the current excess liquidity in the banking sector? Both funds lent to prime customers at interest rates below 15 per cent and deposit rate in single digits and with the proposed transfer of parastatals account to commercial and merchant bank, there could be a massive injection of funds into the sector. With so much liquidity, and the removal of foreign exchange restriction on some transactions, the danger is that the exchange rate stability may not last. Hence, if the government is to keep its commitment to improve the external value of the naira, effort should be made to not only supply enough foreign exchange but also to mop up the excess liquidity as occasion demands.

Way Forward

The dual exchange rate policy is no doubt more damaging from its symbolic impact than the quantitative effects of any other consideration. The most obvious reason for the adoption of dual exchange rate policy is the need to tackle balance of payments problems. Countries with weak balance of payments position adopt the policy as an alternative to full deregulation, which is viewed as too costly from a political or social perspective. However, in Nigeria, it is not the productive sector that is offered protection and/or encouragement but rather the public sector. Hence, since the government being the main supplier of foreign exchange does not need to be subsidised, retaining the dual exchange rate system has an insignificant impact on government's financial position.

This chapter was based on a paper presented at a seminar organised by Kenneth Michael & Co in Lagos, March 1992.

Chapter 9

Role of Population in Investment and Marketing Planning

Introduction

In this Chapter, the term population is taken to imply demography. Demography is the study of human populations in terms of size, density, location, age, sex, race, occupation, and other statistics. Knowledge of the demographic environment is of major interest to investors and marketers because it provides relevant information that can be used for value creation in the ultimate good of consumers, investors and markets.

Presently, demography is not a major factor in investment planning. Investors look for low cost locations to site their industries. These are either locations close to sources of raw materials or where labour is cheap. The main rationale for such a choice is because we now operate in a global market, where prices are competitively determined, hence low cost production is the key to profitability. For instance, most consumer products in the United States are produced in less developed countries due to tax, labour and other advantages only to be shipped to United States for sales. Hence the role of demography in investment planning is fast being eroded. Actually, even before the current information technology revolution, source of raw materials was more important than population (market) in influencing investment location.

However, in the service sector demography is the vital factor in influencing investment. This is because services cannot be

preserved. They are consumed at the point of sale. Hence an investor looks for the customers he wants to serve and sites his business as close as possible to them. A good example is the banking industry. Other instances where population can play a great role in investment planning include the existence of import barriers, transportation or preservation problems, etc.

Unlike investment planning, marketing planning is almost entirely based on exhaustive demographic analysis of an area in order to determine the market segment to target. In fact, the specific demographic details of a particular market are what determine the type of product to offer or the type of packaging to use. Marketing planners now determine not only where to offer a product, but also how to modify a product to suit a particular market. They go beyond finding out what is needed. The population statistics of an area is the key factor behind demand, and therefore has to have sufficient details to have relevance to marketing planners.

The purpose of this current effort is to examine the information contained in the 1991 Census National Summary with a view to analysing their usefulness in investment and marketing planning.

However, before the analysis it is important to consider some important issues, which relate to the 1991 census. These issues relate to:

- acceptability;
- special features of the population statistics;
- attitude to the questions; and
- important experiences that should be incorporated.

One can safely state that the 1991 census was generally accepted except for a few observations and reservations on some of the statistics. But generally, the observations in the 1991 census are different from those of 1973. The differences relate to organisation of the census in areas such as:

- Depoliticization of the census by the removal of tribe and religion from the questionnaire.
- Provision of adequate equipment and trained personnel.
- Use of computers in collation, compilation and the analysis of census figures.
- Massive enlightenment campaign on the importance and use of accurate census figures.

In order to depoliticize the census through the removal of statistics on religion and tribe, critical information that would guide marketing focus are eliminated from population census results.

Again one can safely state that people generally had a positive attitude to the questionnaire as they were made to believe that computers could detect incorrect responses as well as more than one's fingerprint inputs.

On the credibility of the figures, it will not be out of place to state that the figures obtained have been the most elaborate given the literacy level of Nigerians and their antecedents.

This chapter starts by reviewing the development of information-based product on designing and marketing. The information contained in the 1991 Census National Summary is then discussed in the light of its usefulness for investment and marketing decisions. Finally, other vital information that are needed to supplement census information in product designing and marketing are discussed with a view to drawing interest in their provision.

The Development of Information-Based Marketing – A New Paradigm

Since the 1970s, the nature of product development and marketing has evolved through three stages which are driven primarily by available technology. The period before the 1980s can be characterised as the era of mass marketing. A small number of

generic products was offered to consumers on a 'one-size-fits-all' basis. Minimal technology was used for basic production processing. Because products were intended for sale to a wide, mass-market audience, marketing and advertising were undertaken through mass media such as newspapers, television and radio.

In the beginning of the 1980s, there was a move from mass marketing to market segmentation. It became possible to identify groups of customers with common characteristics for whom a product or service could be tailored. By more closely meeting the needs of these groups of customers with more 'customised' products and services, manufacturers could differentiate themselves from competitors. Companies were no longer competing solely on the basis of price. Overall marketing effectiveness was improved and marketing costs reduced as companies were able to be more selective in their use of advertising and marketing vehicles. The growth of specialised communications media - including cable TV and special interest publications as well as direct mail and telemarketing - provided vehicles that could identify, target and communicate with customer segment more effectively. This enabled the development of highly targeted direct response marketing plans using demographic database.

A third stage - information-based marketing (also known as the era of one-to-one marketing) - is beginning to emerge and is characterised by the use of increasingly-sophisticated technology to develop and market value propositions that can be uniquely tailored and marketed to individual customers or segments of a given market. It allows manufacturers to customise their products and services to the unique needs or wants of individual consumers and to market those products in a highly-targeted and cost-effective way. In the financial services industry, for example, information technology has aided information-based marketing. Customer-specific information are used from the initial consumer research in which potential value propositions are identified and tested to the choice of advertising and marketing media to use.

At the core of the evolution from mass marketing to information-based marketing is the availability of Information Technology (IT) that allows marketers to identify customer and prospect characteristics so that these can be targeted effectively with value propositions at a time when they are most likely to buy.

Over the next five to ten years, the nature of marketing will change significantly in all industries and would be driven principally by changes in technology. This change will be particularly pronounced in the financial services industry because of the simultaneous shift to electronic and direct distribution, the evolution of technology-based products and services, changes in consumer behaviour, expectations and purchasing patterns. The entry of new, technologically sophisticated competitors into many of the most attractive and profitable niches of the financial services industry will lead to improvements and developments in information-based marketing. The transition to information-based product development and marketing is therefore expected to be all encompassing. It will affect not only the ways in which marketing and advertising programmes and products are developed and presented to customers, but also the media forms that are used to communicate with prospective customers, and the ways in which customers respond to offers and make purchases.

Product Development and Marketing Planning Steps

The decision to invest in the development of a product for a particular market requires the adoption of a systematic approach. This as we identified above is now done in a reverse order. The market is determined first and based on customer preferences the product is developed. The steps involved in this approach can be summarised as follows:

Market environmental scanning:

- Analysis of market opportunities.
- Analysis of market segments and consumer buying behaviour.

- Selection of target segments to serve.
- Development of products for each target segment.
- Choice of marketing and advertising medium for each target segment.

The first three steps involve detail-analysis of demographic data on the particular market one is targeting. For a global player the whole world will constitute this market and for a national player the relevant market will be the target country. In Nigeria any decision to adopt an information-based product development and marketing should start with an analysis of the information contained in the 1991 Census summary document. Other sources of information can then be explored to get more specific information, which could not be obtained from the census data.

1991 Census Data, Investment and Marketing Planning

Information on National Census is always available in most countries. Traditionally, census is conducted every ten years. The information is usually gathered by mail and door-to-door surveys conducted across the entire country. Such information provide an accurate source of vital statistics on a number of different data categories, such as housing, gender, race, age, ethnic background, marital status, languages spoken, income, mobility, occupation, vehicle and other major assets ownership, etc. The major advantage of census data over all others is that the statistics given are not drawn from a sample but rather from the actual population. All the vital statistics mentioned above could be obtained for any geographic location, region or the nation as a whole. The summary of the 1991 census also provides such useful statistics. These include the following:

Population Growth

The history of census in Nigeria is laden with controversy and discontinuity, thus making any analysis of population trends impossible. The 1952/53 census has been accepted as about the

best census conducted in Nigeria before the 1991 census. The 1991 census put the population of Nigeria at 88,992,220. The general criticism against the 1963 census is that the figures were grossly inflated. The census conducted in 1973 was cancelled for political reasons and no census was conducted in 1983. Thus, estimating a realistic inter-censal growth rate in Nigeria is a tenuous exercise. This is because of the growth associated with previous censuses conducted in 1952/53 and 1963 and the failure to conduct an acceptable census in 1973 and 1983.

Using the 1952/53 census as a base, the average population growth rate is estimated to be 2.83 per cent per annum. Using this growth rate for projection is considered superior to other growth rates that were computed using survey data. Hence using this growth rate one can project the population of Nigeria to 1998 and year 2010 to be 108.19 million and 151.23 million, respectively.

The importance of a population growth rate for investment and marketing planning cannot be over-emphasised. Supply of goods and services are usually based on estimated demand, which is a function of the number of consumers and their purchasing power. However, knowing the projected number of people in the country is not always equal to the projected number of consumers. Various goods and services are demanded by different segments of the population. Hence a more detailed analysis of the demographic structure of the population is required.

Age Structure

The single most important demographic feature of the Nigerian population is its pyramid structure. The Nigeria population is made up largely of children. About 55.40 percent of Nigerians are below the age of nineteen. Only 39.30 percent are between the age of 20 to 60 years, which represents the working population. Only 5.20 percent live beyond the age of 55 years. This distribution supports the estimation of our life expectancy level at 52 years.

The pyramid age structure of the population is expected to strongly affect investment and marketing planning. This can be seen clearly if one examines the five age groups that make up the Nigerian population.

Children: There were 28.84 million children below the age of 10 in Nigeria in 1991 (32.40% of the population). This is estimated to have grown to over 35.06 million by mid 1998, thus creating a large market for children's goods within the country. The producers of children. toys and games, educational materials, clothes, furniture, and food are currently enjoying a boom. Many manufacturers of electronics are now offering products designed for children. Retailers are opening separate children's clothing chains in urban cities. The market for children's products will continue to grow through most of this decade and will only decrease in the next century, when the social value of having many children will be expected to decline.

Youth: The number of 10 to 19 year olds stood at 20.47 million in 1991 (23 percent of the population) and is estimated to be about 24.88 million by 1998. The number of youths is expected to continue growing due to better health facilities. The youths provide the biggest market for education and educational materials.

By 1998 several private sector primary and secondary schools were established due to the high demand for quality education. Other market opportunities that depend on the demand by this segment of the population include the production of health and beauty aids, clothing and entertainment.

Young adult: This group consists of people between the ages of 20 to 34. In Nigeria today, demand for goods and services by young adults has fallen significantly due to their poor purchasing power. Most young adults are unemployed and their parents spend less on them because they are supposed to take care of themselves. They provide a good market for university education; however,

suppliers of university education books and equipment are not experiencing any boom due to poor financial support from parents or scholarship agencies. With a population of 20.89 million (28.10%) young adults provide a very big market for single-room accommodation, cheap furniture and sporting equipment.

Middle age: This group consists of people between the ages of 35 to 60 years. They form the bulk of the working class and bear the burden of nation building. With a population of just 14.16 million (15.90%) they bear the responsibility of supporting 53.89 million children, youth and old people. This, therefore, puts a lot of pressure on the working class. No wonder the death rate is very high among people in this age group. Hence, the population of this group will only increase if the economic and social burden is reduced.

The middle-aged provide a major market for larger homes, automobile, clothing, investment and financial services.

Old age: Nigeria has very few people above the age of 60. There were only 4.58 million old people in 1991. Most of the old people do not get pensions because very few of them are retirees. They, therefore, are poor and largely dependent on the middle aged for subsistence. Nevertheless, they provide a market for quieter forms of recreation, life-care and health-care services.

The age distribution across the states of the federation is not uniform, While Abuja and Lagos have fewer children (children under 15 years constitute only about 40% of the population), on the other hand, the people of the middle-belt tend to have more children below the age of 15 than the rest of the country.

Sex Structure

One of the most striking revelations of the 1991 census is the fact that Nigeria has a remarkably balanced distribution of males and females. There are only 66,996 more males than females.

Although the sex distribution is balanced at the national level, this could not be said of the component states. Enugu, Ebonyi and Imo states have far more females than males, while Abuja and Lagos have by far more males than females. This can be explained by the fact that most Igbo men have migrated to other parts of the country in pursuit of their trading business leaving the girls and women behind to study and farm, respectively. On the other hand Abuja and Lagos are the choice destinations of most men looking for greener pasture both in terms of employment and business opportunities.

The sex structure of the Nigerian population has a very significant impact on its investment and marketing planning. Culturally, Nigerians are gender sensitive: apart from the Yorubas, the people use different cloth materials for males and females. Most other wears, such as jewelries, shoes, etc are differentiated between males and females. There are also certain provisions that are either for male or female. In the production and marketing items, information about the sex structure of each state is important, for instance, while restaurant business will be very lucrative in Abuja and Lagos, where most men are without their wives, the sale of ladies wears will be a good business in Igbo land.

Population Distribution and Density

The population distribution and density in the various states of the federation is of major importance to investment and marketing planners. Areas of greater population tend to have greater demand for most goods and services. This explains why most industries are located in Lagos and Kano states. The density of population may not be important in investment decision, except for the fact that land tends to be expensive in densely populated areas. However, density of population is very important in marketing planning, because density of population reduces the cost of reaching out to customers. The cost of marketing will thus be less in Lagos and the Eastern states than the Northern states.

Household Type

The distribution of the population by household type is very important in not only depicting income distribution but also the lifestyle distribution of the population. Such information will be very important to marketers of luxury items, as well as, goods that are meant for the lower class. Unfortunately, however, such details cannot be obtained from our census figures. Rather broad categories, such as regular, institutional, nomadic and homeless, were used to describe household type. Such information may still be important. For example a manufacturer contemplating the production of low cost tents for the nomadic Fulani will have no market for such product due to the increasing rate at which the Fulanis are settling in towns and villages and building regular households. The 1991 census showed that less than a million people are still living a purely nomadic life.

Family Life

The 1991 census showed that Nigerians love family life. Marriage is universally practised even among the youthful population of 10 to 14 year olds. About 4 percent of the male and 7.50 percent of the female in this age bracket are married. The percentage of married persons rises sharply at higher ages and by age 44 only 5.9 percent of males and 2.3 percent of females have never been married. It is clear that the proportion that is married is higher among the females than among their male counterparts. The married state appears stable, since few people are either divorced or separated.

Marriage is always shrouded by cultural practices. The popularity of marriage ensures that the market for items that are culturally needed in marriage festivities remains in high demand. Thus manufacturers of enamelware, silverware and ceramic dishes have a large market among the Hausas who accompany their brides with such items. Marketers of bridal gowns, gold rings and flowers make good business among the Christian communities.

Literacy

The population is becoming better educated. Over half of the population (56-70 percent) is literate, that is, can read and write in local or foreign language. Literacy rate is higher among the males (65.70 percent) than among females (47.80 percent), and declines progressively with increasing age for both sexes.

The state by state distribution of educated people shows that there are more educated people in the southern part of the country than in the northern part. About 70 to 82 percent of the people living in Lagos, Edo, Delta, Anambra, Imo, Rivers and Bayelsa states are educated. Apart from Kano, Kwara, Kogi and Kaduna states, less than half (32 to 50 percent) of all the people in the other northern states can read and write.

The rising number of educated people will increase the demand for quality products, books, magazines, and travels. The trend will also increase the number of people in white-collar jobs and a decline in that of people in blue-collar jobs.

Purchasing Power

In investment and marketing planning, the number of people living in an area is important only to the extent that purchasing power is uniformly distributed among the population. The 1991 census revealed that most of the economic activities in the country take place in the Yoruba states. About 37 to 45 percent of the people in Yoruba land are economically active. Hence the Yorubas have greater purchasing power than any other group in the country. The other southern states, apart from the riverine areas, have the next highest number of economically active population, about 31 to 37 percent. Less than 31 percent of the northerners are economically active, with the Hausaland having less than 24 percent. The main factors that account for this distribution of purchasing power are the level of education and ecology. Most of

the part of the North is not arable for most part of the year and only a small proportion of northerners has acquired Western education.

Another factor affecting the number of economically active people is culture. While half of the women in the South are economically active, less than 25 percent of northern women is engaged in any economic activity.

This distribution of purchasing power is, in fact, supported by empirical evidence as 90 percent of the manufacturing, distribution, marketing and advertising companies is located in the southern part of the country.

Occupational Distribution

Overall, only 26.62 million Nigerians are economically active. About 56.40 percent of these numbers are males while 32.38 percent are females. Half of these, about 12 million people, are engaged in agriculture, including animal husbandry, fishing and hunting. About 5.93 million people, or a quarter of the active population, are engaged in trading activities. Only about 3.28 million people are engaged in white-collar jobs.

The implication of this occupational distribution of the population is that manufacturers and marketers of agricultural equipment, fertiliser and agricultural chemicals have a very large market in Nigeria.

Although the 1991 census has provided the most reliable and comprehensive analysis of the Nigerian population, a lot more details will be needed to meet the needs of today's investment and marketing planners. Census authorities do not traditionally provide some of this information. Hence other specialised organisations provide them mainly for commercial reasons and purposes.

Other Population Data used in Investment and Marketing Planning

Relevant investment and marketing information are not restricted to population census data alone. Various governmental and non-governmental organisations conduct censuses or surveys of other important segments of the society, such as industries and other business organisations, livestock and other domestic animals, etc. In Nigeria some of such information are available from the Federal Office of Statistics and the Central Bank of Nigeria Research Department. Also several private firms conduct population surveys either on a contract basis, for a specific client, or for sales to interested clients. Such firms do provide detailed demographic information in advanced countries which are used by product developers and marketing planners. Such information is usually based on survey data. In Nigeria such survey data have not been found acceptable, generally. For instance, the Nigerian Fertility Survey of 1981/82 and the Demographic and Health Survey of 1989 reported unacceptably high population growth rates. Other important information that could be provided on investment and marketing planners by such firms include the following:

Lifestyle Data

In general, lifestyle information is gathered from surveys and new product registration cards. Data could be gathered on such topics as hobbies, leisure interests, health, and product ownership. Though such data are not very useful for specific customer mailing, for example, knowing that general groups of customers have similar lifestyle characteristics may, however, be useful for directing marketing programmes. Such lifestyle and demographic information are usually gathered from individuals who have purchased certain major consumer products such as cars, personal computers, expensive sporting equipment, etc. Such information could be gathered by or on behalf of a manufacturer for use in

marketing its products. The availability of, and access to lifestyle information varies from country to country. In advanced countries, large volumes of such information exist and is readily available for use by market planners. In Nigeria, however, some companies do gather similar information by engaging public relation consultants. The business of gathering and disseminating such information on a permanent basis is still underdeveloped in Nigeria.

Credit Data

The major credit bureau maintains extensive amounts of consumer information. However, such information is not freely made available for generalised marketing. The data can be used to pre-screen customers for credit products provided that, once a customer passes such a pre-screening, an offer is made and fulfilled. Credit bureau data are not publicly available but gathered from credit card issuers. In Nigeria, the Central Bank has established credit bureau and all banks subscribe to and provide information to the bureau. The provision of this information to marketers of other products may not be possible now since even banks are yet to commence using the credit bureau information.

Business Files

Business files are compiled from publicly available information such as annual reports, government data and other information compiled to help business-to-business marketing. Such files include the name and address of companies, and listing by standard industrial classification code of the type of business in which the company is engaged. Much of the information is obtained through direct calls to the businesses to verify the data and collect additional information such as the name and titles of company officers. This database is usually derived from a variety of sources, including business analysts, who often verify the information through face-to-face, telephone and mail interviews.

Cluster Files

The fundamental premise of clusters is that, to a certain extent, people who live in a given area have common characteristics. Based on this assumption, clustering tools can classify every neighborhood into several descriptive types or clusters. Clustering tools can be useful for marketing purposes: they enable marketers to select clusters that are likely to purchase specific products or services. Marketers associate with each homogeneous cluster-particular lifestyle and purchasing behaviour. By knowing these characteristics, marketers can target programmes more precisely. Each segment has a unique name and definition.

Concluding Remarks

Demand for every good or service is the primary motivation for its provision. This demand is a function of several factors. These include population, purchasing power, taste, fashion, level of education, location, weather condition, etc. Of all these factors, population is the most paramount. Hence knowing the demographic details of any population is an important tool in developing products that are tailor made to meet the taste or requirement of the consumer. Such an information-based product development and marketing approach is the current norm in most advanced countries. This approach is further aided by recent development in information technology.

Most of the detailed demographic information needed for an information-based product development and marketing are not available in Nigeria. The information provided by the National Population Commission, though more elaborate and reliable than those obtained in previous census, is still not adequate to meet the requirement of modern investment and marketing planners. One critical factor that would enhance the reliability and adequacy of information given by the National Population Commission is the effective usage of the Local Government offices nation-wide

for registration of births and deaths. If well coordinated, one expects that their number and coverage would capture a large proportion of the births and deaths in such a manner that would improve the quality and reliability of National Population Statistics. This reliability of National Population Statistics should be taken as a matter of priority by the National Population Commission.

The primary objective of the census should remain that of providing relevant information for public sector planners. Private sector investment and marketing planners should continue to find census statistics relevant. However, where obvious lapses emerge, adequate data on investment and marketing planning may be obtained through private sector-led surveys. These private sector-led surveys are more geared towards providing detailed information specific to user demand.

The original text was presented at the International Conference on "Census '91 and Beyond", held at Abuja on October 27 to 29 1998.

Chapter 10

Nigerian Economic Outlook: A Private Sector Perspective

Introduction

Major economic indicators suggest that Nigeria's domestic economic performance has improved since 1995, though it is still below the targeted level in each year. A moderate real Gross Domestic Product growth was recorded and an improved level of macro-economic stability has been achieved. The rate of inflation has fallen drastically; deposit rates are in single digits and the prime lending rates are tending towards the 10 percent level. Fiscal deficits are now a thing of the past, the balance of payments position has strengthened resulting in an impressive increase in external reserves.

This performance indicates the extent to which economic stability has been achieved. What remains now is to consolidate it so as to achieve economic growth and sustained national development. This will require the identification of clear strategic programmes and reforms which when implemented fully can accelerate the rate of economic growth to ensure the achievement of the objectives of the 1999 rolling plan and Vision 2010.

It is pertinent to note that the objectives of the 1997 budget, the Rolling Plan and that of Vision 2010 are largely in harmony. Emanating from these objectives are:

- the need to double the national income by the year 2010
- the need to enhance living standard of every Nigerian by year 2010

To achieve the objective of doubling the national income by the year 2010 the country needs to quickly attain a double digit real GDP growth rate and sustain it. To do this Government must initiate and implement certain bold policies and major sectoral/institutional reforms. Below is an analysis of suggested solutions to some of the key issues confronting the major sectors of the economy as well as required policy reforms.

Privatisation

Certain concerns have been raised regarding the privatisation of state-owned enterprises in Nigeria. The two critical ones are that privatisation would lead to:

- (i) Selling off some valuable and strategic national assets to foreigners and a few wealthy citizens.
- (ii) Privatising some of the public utilities such as NITEL and NEPA will still leave the country with monopolies whose interest is only to maximise profit regardless of the impact on the citizens.

These fears can be allayed by proper education as to the overall benefits of privatisation both to the economy and the citizens, especially, when it is known that what is being advocated is not just privatisation as an end, but as a means of enhancing the quality of life of the citizens. The privatisation of existing state-owned companies as well as the opening up of all sectors of the economy to the private sector seems a worthwhile objective. In this regard, the government has taken the first step in the 1997 budget by undertaking to abrogate all laws giving monopoly powers in all sectors of the economy. The method of privatisation to adopt is also equally important, and one of such method is allowing only

foreign operators with capital, technology and managerial expertise to participate in the privatisation programme. This will ensure efficiency and the availability of quality services to the citizenry.

A likely approach to address the concern over foreign domination of key/strategic areas of the economy, and the perceived loss of sovereignty it will entail would be to enter into agreements with reputable foreign operators to buy existing assets and/or establish new ones and operate them over a stipulated period of time during which they would have recovered their investment and made adequate returns. After a while, the foreign operators will sell majority shares in their companies to the Nigerian public through the Stock Exchange.

The advantages of this approach include: immediate availability of capital, technology and expertise; rapid expansion in service availability to Nigerians; and buying of time to enable the Nigerian populace to accumulate enough financial resources to acquire majority shares and control of these enterprises.

Suggested approaches to solving the problems of key sectors

Electricity Supply: Break up the National Electric Power Authority (NEPA) into regional electricity companies, probably using existing power stations as hubs and privatise individually.

Telecommunications: Privatise Nigeria Telephone (NITEL) and at the same time license networks/international gateways.

Downstream Petroleum Sector: Sell refineries individually to experienced operators. It is important to note that the retail end of this sector, as strategic as it is, is currently operated by private companies. It is also important to note that the first refinery in Nigeria (at Eleme) was owned and operated by Shell-BP. These bold steps are required in order to put an end to the recurrent

problem of product shortages that pose enormous economic, social and political problems to the country.

Upstream Petroleum Sector: An approach worthy of consideration is the adoption of Production Sharing Contracts as the basis of operation in this sector in place of the present Joint Venture (JV) arrangements. Under this arrangement, government would maintain control through royalties, petroleum profit tax and, of course, other legislation in addition to receiving its own share of the output as agreed. A far-reaching benefit of product sharing contracts to the country is that the oil companies would be in a position to bring in their own capital to fund their entire operations and this would be a major source of foreign capital inflow to the country. Even more important, the country would save the over US\$2.5 billion it has to contribute to the JV's annually. This is a massive sum that if invested instead of the provision of badly needed infrastructure, education, health care and other social services would dramatically transform the country and make it possible for it to achieve the targets being set for the year 2010.

Agricultural Sector

The basic approach suggested here is the out-grower approach. In this approach, farmers will cultivate their land under the collective management of a company that provides them with land preparation service, high-yield varieties, fertilisers, pesticides and other inputs, as well as, marketing services. The farmers would take an agreed portion of the output or sales proceeds. Aside from bringing the benefits of modern technology and farming techniques to the farmers, such companies would be in a position to access bank credits and other financial resources that individual farmers cannot reach on their own.

Such schemes (or variants of them) currently operate in the Tobacco farming industry in Nigeria and had been very successful over the years.

Solid Minerals Development

The government needs to intensify efforts to create a conducive environment for investment in solid minerals mining. Investment in this sector involves a very high degree of risk due to the high cost of prospecting, exploitation and transportation to points of sale. In this regard efforts should be made to open up areas with rich minerals deposits by linking them with rail lines and good road network. Schemes to insure miners against certain risks, similar to that of the Agricultural Sector should also be initiated. The potentials in this area are enormous. If fully harnessed the sector can compete with oil in foreign exchange earnings. It also has the advantage of extensive forward linkages through processing activities and the supply of raw materials to domestic industries. It is also important to note that, unlike oil, Nigeria is abundantly endowed with a variety of solid minerals. It can therefore avoid the traumatic experience often arising from falls in oil price because international market declines in the price of one mineral can be counter-balanced by stability or rise in the prices of others. The overall effect on the stability of government revenue cannot be over-emphasised.

Government has rightly recognised the potentials of the solid minerals sector and has taken a number of steps to develop it. However, a lot more needs to be done and urgently too. First there is the need to recognise that mining is an international business and therefore the industry has to be operated at international standards as is the case in the oil industries. There is intensive competition for specialised financing available globally for mining investments. Many of Nigeria's neighbours have since realised this and have since been able to put themselves on the map of international mining. The case of Ghana is very well known. However other countries such as Togo, Guinea, Burkina Faso, Sierra Leone, Senegal and a host of others in east and southern Africa have also developed vibrant and successful mining industries.

Nigeria has to adopt a focused and competitive strategy for the development of the solid minerals sector. It must realise that as late-starters, the country needs to do even more than the other countries in terms of enabling laws, geological data availability and incentives in order to compete with them.

Development of Modern Technology

The future world economy will certainly be driven by high technology, especially information technology. The building blocks of such an information age are already in place around the world. It is now apparent that success and competitiveness in the global economy would be determined largely by the ability to become a major player in the information-driven economy. The world would be polarised between the information haves and the have-nots.

For Nigeria to make the desired quantum leap into the next century, it must begin now to acquire and nurture a high technology industry. The task may seem daunting at first. But it is pertinent to note that information technology skills are far easier to acquire and grow than is the case with other areas of technology.

Software development, for instance, is essentially labour intensive and such operations costs very little to set up. Many developing countries are cashing in on this and are beginning to make an impact on the information technology world. India is a case in point here. Software experts have in the past few years become a major contributor to India's foreign exchange earnings.

Nigeria has the resources, especially human resources, to develop an information technology industry. However, the necessary infrastructure has to be put in place. A modern and readily available telecommunications network is paramount. Equally important is full Internet connectivity. The Internet has opened up a whole world of opportunities to people everywhere in the world, rich and poor countries alike. It provides a cheap access to boundless resources around the world. It is disappointing that Nigeria has

continued to keep itself outside of this important medium when countries such as Ghana, Cote d' Ivoire and a host of others are now fully connected and are reaping the benefits.

Strengthening the Financial Services Sector

The financial services industry will remain central to the realisation of the economic potentials of the country and the achievement of whatever growth targets contained in Vision 2010. It must therefore be strengthened to play this role. Recent government policies and actions aimed at combating distress in the banking sector and strengthening of existing institutions are welcome.

A major deficiency of the Nigerian financial system remains to be addressed, however. This is the near absence of long-term funds for capital investments. The capital markets remain weak and long-term savings institutions are still rudimentary. There is no gain-saying the fact that the absence of long-term investment capital can impede growth and development of manufacturing industries and other productive sectors of the economy.

It is, therefore, of utmost urgency to begin to address in a serious way measures aimed at developing this very important component of the financial system. Pension funds must be addressed in a comprehensive manner. Existing legislation must be reviewed and strengthened to support the growth of this industry. Government, as is the case in other countries, should play a part in the industry by establishing independent and professionally-managed, fully-funded pension schemes for its employees. This will also serve the purpose of removing the strain on government's current revenue as well as guarantee secured retirement benefits for public sector employees.

In addition, tax and other incentives should be provided to encourage development of other long-term funding institutions such as mutual funds, investment trusts and venture capital.

Fiscal Policy Measures

Government's recent fiscal policies have been largely successful in stabilising the macro-economy. Further efforts have been made particularly in the area of taxation. The successes registered so far with the introduction of Value Added Tax (VAT) should be consolidated. The ease of collection/administration of VAT and the fact that it is a tax on consumption makes it a desirable alternative to income tax. Tax on income has a direct effect on the ability to save and invest. The Nigerian economy needs all the savings and investments it can attract. It is therefore being recommended that government should consider major reductions in the basic rates of corporate and personal income taxes, while strengthening the administrative machinery and widening the tax base.

Other Pertinent Issues

Land Use Decree

The Land Use Decree was introduced with good intentions but experience has shown that its application has rather created distortions, bottlenecks and several other problems for citizens. The process of land acquisition has become a herculean one and is riddled with corruption. Agricultural investment and real estate development are particularly affected. Besides, the absence of a free-hold title eliminates the possibility of use of land as security for borrowing.

Government has therefore made it even more difficult for Nigerian citizens to access bank credit.

The decree should be reviewed urgently, and if necessary, abolished altogether to make for more efficient land acquisition and use, while retaining the powers of government to acquire land for public use.

Official Statistics

A nation without reliable statistics is like an aeroplane without a radar. Effective policy planning and implementation cannot take place without such statistics. It is a great cause for concern that international agencies are beginning to reject Nigeria's national statistics. Even within the country, the use of such data for planning is limited. It is therefore important to overhaul the entire machinery for national data collection, analysis and dissemination to ensure comprehensiveness, accuracy and timeliness. Private sector groups can complement government efforts by establishing data bank, as is the case in developed countries.

Security of Life and Property

This is a subject that has been dwelt upon extensively in the past but which needs re-emphasising. Meaningful conduct of business and investment can only flourish in an atmosphere of security and peace of mind. Recent successes of initiatives such as "Operation Sweep" a security program designed to flush off armed robbers from the streets of Lagos and similar operations in other parts of the country and the battle against drug trafficking and advance-fee-fraud are highly commendable. Efforts of the Failed Banks Tribunals must also be mentioned in this regard. These efforts must be maintained and intensified to make Nigeria a safe place to live and do business.

Improvement of Citizens' Quality of Life

Government must also pursue people-oriented programmes if it is to generate the requisite national consciousness that should combine with the emergent political and social stability to launch the nation ahead. Decision-makers should, therefore, be guided by the realisation that since the economy exists for the people's benefit, it is a mark of economic failure if people's economic welfare has to be sacrificed simply to balance the books. The critical issues to consider in this regard are:

Employee Compensation: While welcoming the abrogation of the uniform national salary scale, one hopes the minimum “take-home” wage payable to workers under the new arrangement can more than “take them home”. It is in the interest of the economy to adjust the compensation of the labour force to reflect the current realities, otherwise the people will continue to resort to all manner of, largely negative, methods just to survive. In this regard, the present compensation system which is heavily weighed in favour of benefits-in-kind should be changed through monetisation. The current situation in which a government official earning N50,000.00 per annum is accommodated in a house on which government pays N1.00 million rent per annum appears to be counter productive. Monetising this benefit will not only enhance the purchasing power of the staff but will also encourage him/her to save, and hence resulting in a multiplier effect for the whole economy. Apart from enhancing labour compensation, one will strongly recommend a tax reform that eliminates the payment of personal income tax given that the Value Added Tax has proved to be a more reliable and efficient system.

Employment: A just and egalitarian society must continuously confront unemployment with a view to obliterating it. In this regard, the Family Economic Advancement Programme is an indication of government’s concern for the welfare of its citizens. It deserves commendation. However, care must be taken to avoid a repeat of the past. Besides, there is also the need to avoid any duplication of roles.

Supply of Goods and Services: To ensure adequate and efficient supply of goods and services it is not only enough to address the problems of the industrial sector, it is even more important to address the problem of the informal sector. This is so because the informal sector is the dominant component of the Nigerian economy, despite its handicaps. The major handicaps of this sector include the following:

- The members are mainly landless.
- They lack basic infrastructure for their work.
- They lack legal protection for their activities.
- They are under-serviced by the financial system.

A new agenda is therefore necessary to:

- raise the quantum and ease the availability of credit to the informal sector;
- revive and re-energise the informal sector through robust policies, instruments and products.

Economic Equity and Social Peace: The need to improve the quality of life of the average Nigerian cannot be over-emphasised. A review of the National Misery Indices computed by the United Nations and the World Bank show that in 1996: only 36% of Nigerians had access to safe water; 66% had access to health services; and 35% had access to sanitation. Life expectancy at birth was 51 years; infant mortality was 83 out of a thousand; adult literacy level was 52%; the quality of education was low; 7.2 million children were malnourished and the level of urban crime was alarming.

Such a score card requires urgent attention. Also the gap between the rich and the poor in Nigeria is so wide that it is in the long run interest of the rich to close it, if only to have social peace. The task, no doubt, is more than can be handled by government alone. Every Nigerian citizen must put hands together to address the inequities of the society.

Conclusion

Government is clearly heading towards the right direction with regard to its macro-economic policies. The positive results are already being felt. What is now left is to take a few bold steps (policy wise) and make some institutional reforms that are required to consolidate those gains and sustain growth. These certainly call for courage and one is quite confident that the Federal Government of Nigeria is up to the task.

This chapter was based on a paper presented at the Vision 2010 Workshop held at Abuja on February 13, 1997.

Chapter 11

Financing Private Enterprise -The Nigerian Experience

The Place of African Entrepreneurs

The sectors dominated by private entrepreneurship in Africa spread across agriculture, mining, manufacturing, distributive trade, building, road transportation and general commercial services. In all these sectors, the indigenous private entrepreneurs mostly operate on a small and medium scale. However, given the right environment and arrangements, these small/medium enterprises (SMEs) can contribute significantly to industrialisation and increased economic growth. At present, SMEs employ more than half of the industrial labour force in developing countries and account for a large proportion of industrial and services output. Their contribution is greatest in countries at the initial stages of industrialisation but remains significant even in the most advanced economies. For example, in the United States of America:

- SMEs account for more than 95% of all businesses
- SMEs employ more than 50% of all non-government workers
- SMEs generate nearly half of the total output of goods and services.

The SMEs in Africa, dominated by the indigenous entrepreneurs, also play the following catalytic role in the economy. SMEs are essential actors in the development process as they:

- mobilise resources and allocate them among productive sectors;

- provide the main driving force behind the interrelated flow of trade, investment and technology;
- generate employment, including self-employment as they together sometimes account for more than 90% of all enterprises in the vast majority of countries;
- engage in a wide variety of activities ranging from providing goods and services to the poor to the manufacture and export of goods in the modern sector;
- help fight and alleviate poverty;
- provide a breeding ground for entrepreneurs and through the “demonstration effect”, they spin off new enterprises;
- are net job creators even in periods of recession.

On account of their small size, they are flexible and adaptable. They add flexibility to the industrial growth and structure, by engaging in small batch production and made-to-order types of “finishing” operations complementary to the activities of large-scale industry. Since innovative projects typically start small, they are also the instruments of innovation and they generate green field investments.

Owing to the importance of private entrepreneurship in African economies, a lot has been done at the national and international levels to promote entrepreneurship in African public and private sectors. At the national level, countries like Nigeria have passed Indigenisation legislations reserving certain areas of economic activities for the indigenous private entrepreneurs while transferring substantial ownership and part of management of all other enterprises to the indigenes. Also, the Nigerian Government has promoted specialised institutions such as the Nigerian Bank for Commerce and Industry (NBCI), the Nigerian Industrial Development Bank (NIDB), the Nigerian Agricultural and Co-operative Bank (NACB), the National Economic Reconstruction Fund (NERFUND), Peoples’ Bank, Community Banks and recently the Credit Risk insurance Fund scheme to provide financial and technical support for indigenous entrepreneurs.

At the continental level, the Heads of State and Government of the Organisation of African Unity (OAU) adopted the Lagos Plan of Action and also endorsed a proposal making the period 1980 – 1990 an Industrial Development Decade for Africa for the purpose of promoting self-reliant and self-sustaining industrial development.

The promotion and expansion of small and medium scale industrial activities in different sectors, such as agro-based, basic engineering, capital goods, chemical, metallurgical and light industries could help provide the basic needs of the population by using local resources. These sub sectors constitute some of the relevant and immediate avenues for meeting basic consumer needs, in the short period and at low cost, in accordance with the framework of the proposal contained in the Industrial Development Decade Programme.

However, inspite of these laudable efforts designed to promote private enterprises in Africa, there are many formidable constraints to the realisation of the enormous advantages of private indigenous entrepreneurial activities. Perhaps the most important is finance which is discussed below.

Funding Private Enterprises in Nigeria

Financial institutions, especially commercial banks, generally regard SMEs as high-risk ventures. Consequently, these institutions are reluctant in granting SMEs credit without substantial collaterals which the SMEs often cannot provide. For this reason, most managers of SMEs invariably rely on their savings, internally generated funds or informal credit market which apart from being expensive, are inadequate for their expansion and modernisation programmes. However, owing to the significance of this sector to the National economy, a lot of efforts have been expended to remove the obstacles to their financing by addressing their peculiar

problems:

(i) Credit Delivery to SMEs

In recognition of the key role of credit delivery for the promotion of the SME sub-sector, the Small Scale Industries Credit Scheme was established in the early 1960s and replicated by Government in all the States by the mid-1960s. Also, introduced over the years, are various programmes and schemes to enhance the flow of financial assistance to SMEs in the efforts to alleviate their limited access to institutional credit. Some of these financial programmes and schemes are as enunciated below:-

- Matching Grants to States Small-Scales Industries Credit Scheme - 1974 - 1982;
- Establishment of the Nigerian Bank for Commerce and Industry (NBCI) in 1973 with the primary mandate to provide institutional credit to SMEs;
- Amendment of the mandate of the Nigerian Industrial Development Bank Limited (NIDB) to incorporate financing of SMEs;
- Establishment of the Rural Banking Scheme in 1977 to make institutional credit accessible to rural communities for the promotion of rural industrialisation;
- The National Economic Reconstruction Fund (NERFUND) 1989. NERFUND was established to provide relatively long-term loans (5-10 years) to Small and Medium Scale Enterprises (SMEs) at concessionary rates of interest. With NERFUND, it was also expected that SMEs would have easier access to foreign exchange which was difficult for this group through the foreign exchange market (FEM);
- World Bank-assisted SME II Loan Project. In order to further expand credit delivery to SMEs, the Federal Government negotiated some financial assistance in 1989 with the World Bank to complement other sources of funding SMEs. This facility involved a loan of US \$270 million which was made

- for on-lending to SMEs through eligible participating banks;
- Establishment of Peoples' Bank and Community Banks. The Peoples' Bank was commissioned in 1989 and, like Community Banks, was specifically designed to meet the credit needs of the very small (Micro) enterprises, such as artisans, vulcanizers and petty traders, and
- Establishment of Nigerian Export Import Bank (NEXIM).

The Bank provides export credit guarantees and credit insurance facilities to small, medium and large-scale industries. It is also engaged in the establishment of a Mutual Export Guarantee Fund (MEGF) for lending to exporters who need to import foreign inputs to facilitate production for export. Although NEXIM does not have a specific programme for SMEs, it is currently working on the introduction of such a scheme. In collaboration with the Nigerian Export Promotion Council, the Bank is expected to play a leading role in promoting non-oil exports.

(ii) Lack of Start-up Funds

One of the biggest problems to project financing and by implication the development of enterprises is the total lack of venture capital and counterpart funding. A good number of entrepreneurs have technical skills and business acumen but no adequate financial resources to implement their innovative projects. Since those enterprises have no track record except feasibility reports of the viability of their project, financial institutions consider them high-risk projects and will not fund them. In advanced economies, such ventures are funded and nurtured by Venture Capital Companies which provide long term capital. Although venture capital companies are rare in Nigeria, the NERFUND scheme operated through commercial and merchant banks can sponsor bankable projects based on a sound feasibility report alone provided the promoters are genuine and a competent management is in place.

(iii) Resistance to Go Public

The Nigerian corporate scene shows that indigenous enterprises grow and die as closely held family businesses. Over the years the indigenous enterprises have been urged to widen their equity bases not only to enable them widen the scope of their operations but also to reduce the high mortality rate among otherwise successful Nigerian businesses which die soon after the demise of their founders. It cannot be over-emphasised that a closely-held enterprise runs the risks of finding its expansion and modernisation activities hampered by the limit of prudent debt financing. Going public is one sure way of injecting new and long-term equity capital into the enterprise.

However a lot of indigenous entrepreneurs are reluctant to go public because of the prohibitive cost of public quotation and the fear of losing control of their organisations to powerful new shareholders. These fears are being allayed through public education on the uses of the stock market. It is necessary to stress that with 60% they are in control and that “60% of an expanding cake is better than 100% of a diminishing one”.

The introduction of the Second-Tier Securities Market (SSM) in 1985 was part of the initiative of the Stock Exchange for the promotion of small and medium scale enterprises in the country. By providing facilities at the stock market to viable small and medium scale indigenous entrepreneurs to raise funds for the expansion and modernisation of their businesses, the scheme has been contributing to the country's capital formation and reduction of unemployment as small-scale enterprises world-wide are known to generate higher employment than large scale ventures. So far 29 companies have been listed under the SSM sector but eight have graduated to the Main Board while one was delisted due to a merger with a bigger quoted company. Many more applications are being processed.

The establishment of the SSM is expected to put more life into the capital market by allowing companies that do not meet The Exchange's First-Tier stringent Listing Requirements to still participate in the stock market activities. Another advantage is that the cost of listing a SSM company is comparatively lower than quotation on the Main market. The major requirements for listing under SSM include:

- The company must be a public limited company
- It must have 3 years operating record
- A minimum of 10% of the equity must be made available to the public
- The number of shareholders must not be less than 300 post listing
- The amount of money that can be raised may not exceed N20 million.

However, considering the fact that the nation is undergoing structural changes in all aspects, The Stock Exchange is also responding to these economic – changes for the betterment of the investing public, the government and the capital market. There are therefore exceptions to the above requirements.

For instance, The Stock Exchange is not very strict about the 3 years financial statement requirement. In fact, The Exchange is prepared to consider a venture capital project as long as the viability of the project can be ascertained, the management of the enterprise is well-tested and the promoters are genuine.

Inadequate Collaterals

Every creditor requires some form of guarantee that the principal sum would be paid back in due time, plus the accrued interest. In some places, this guarantee exists in the belief, after due appraisal, that the business to which credit is being extended will perform as projected in the feasibility report and that management will

live up to its responsibility. In other places, this guarantee is in the form of assets pledged to the creditor by the borrower, and which could be sold by the creditor to realise his investment in the event of a default – that is, inability of the borrower to service the facility under the contract terms.

The latter form of guarantee which is known as collateral is a common feature of bank-lending in Nigeria and much of the West African sub-region, no doubt because of the underdeveloped business culture which places less emphasis on feasibility reports and the ability of the managers to achieve the projected results. Collateral has therefore evolved as a precondition for bank lending, but under such tough terms that the collateral is expected to cover the credit many times over so that in the event of default the creditor can recover his money from the sale of the assets pledged as collateral. Thus, these days when the issue of bad debt portfolios in the Nigerian banking industry is discussed, the development is easily blamed on “unsecured loans” instead of poor credit appraisals.

The emphasis on collaterals however comes with an attendant problem for fund users who very often cannot meet the collateral required by their bankers before credit could be extended to them. For banks, too, the use of collaterals to secure loans also comes with certain practical problems; the issue of what to accept or not to accept as collaterals, and the difficulties in the perfection of title to assets (lands and shares, for instance). In many cases where certain assets were accepted as collaterals it was discovered that these assets could not be sold in the event of a default, either because the assets were not marketable (due to poor evaluation in the first place) or that the borrower had moved to frustrate the effort of the creditor to sell the assets and thereby recover his money. This has been the experience of many banks when loans were secured against share certificates. Before 1993 when banks gave loans after securing equitable mortgage (instead of legal

mortgage) on the share certificates of the borrower, it was easy for loan defaulters to frustrate any move by banks to sell their share certificates in a bid to recover their debts. This is because the borrowers would give a counter order to share registrars not to approve the sale of such securities and the registrars were bound to abide by this order because of the nature of the contract.

Even though the adoption of legal mortgage by banks as collateral for loans has renewed bankers' faith in the use of share certificates as collaterals, the problem still exists whereby many small businesses are unable to meet the inherently stringent collateral requirement. The logic has often been that if they had the kind of assets required by banks as collaterals, then they should not in the first place be in abject need of capital as they usually are. This suggests, no doubt, that there should be a shift in emphasis from collaterals as security for loans to increased faith in feasibility reports (through rigorous credit appraisal) and the ability of managements to perform its managerial functions responsibly. This takes one to the next constraint to bank credits for small enterprises.

Poor Management/Poor Repayment Culture:

Management quality is a principal consideration in credit appraisal. This is for the simple reason that management is crucial to the success of businesses. Unfortunately, management as a specialised function is still at an evolutionary state in Nigeria. Consequently, very often, the executive management of companies is composed of persons without the requisite management ability. This has obvious adverse implications for the management of companies, especially small enterprises in the country, and the ability of these companies to access bank credits or even make a public issue. For one, such companies cannot command the confidence of creditors or investors, as the case may be.

The current trend, therefore, has been for banks, acting first as advisers, to upgrade the management of companies with which

they are involved before proceeding to provide them with the necessary finance (loan) for their operations or assisting them to source this capital from other lenders or investors. But it suffices to say that the problem of poor management is deeply ingrained and will for long constitute a constraint to credit for small companies. However, in one instance, the chief executive of a company recently quoted on the stock exchange remarked that experience has shown that the hiring of 'professionals' has in some cases resulted in an increase in fraudulent practices in the company. The logic (albeit a warped logic) in this is that perhaps companies would do well without professional managers.

A major fallout of poor management quality in many Nigerian companies is the inability of many companies to discharge their debt obligations when they fall due. Such management cannot appreciate the uses of sinking funds in loan repayment, for instance, and therefore will not abide by this important provision in the loan agreement or debenture prospectus. The net effect of their consequent inability to meet their debt obligations is the dependence of banks and other creditors on collaterals as securities for loans. Also, in practice, there is general lack of adequate monitoring by financial institutions after loan disbursement. Follow-up is a major problem and the lack of adequate follow-up is a significant factor in project failure and loan default in Nigeria.

Exchange/Interest Rate Fluctuation

A common experience of many persons involved in the Nigerian business environment is a realisation of the key role which exchange/interest rate consideration has come to play in the corporate scheme of things, since the inception of the Structural Adjustment Programme (SAP) in 1986. Instability in exchange/interest rates make corporate planning difficult and scuttle the realisation of plans in some cases. Consequently, many scared fund-users have withdrawn from bank borrowing or have kept away from foreign currency denominated credits even when it is obvious that this is what their businesses need for survival and growth.

Banks, as conduits for the disbursement of foreign currency denominated loans like those obtainable under the NERFUND scheme and the World Bank-assisted SME scheme managed by the Central bank of Nigeria, have also kept away from discharging this role because of current disagreement over who should carry the exchange rate risk.

The short term nature of funds available to the banking industry and the high cost of these funds have also made it difficult for the banking industry to finance projects in the country through long-to-medium term loans. Fund users have complained that they could not generate enough returns as to be able to repay the facilities and remain in business – that is, where banks are willing to lend – while on the other hand, banks would rather roll over short-term credits instead of grant long-term loans for capital projects. Either way, however, the burden is on the fund-users.

Which Way Forward

There is a great need for education. Educating and counselling of businessmen on a structured and sustained manner will go a long way in teaching African entrepreneurs the rudiments of management and thus eliminate some of the fears of financiers as to the limited capacity of African entrepreneurs to manage well.

Another approach would be to adopt and adapt other models that have worked elsewhere; for instance, a practical approach to financing of private businesses is the use of a network of Business Development Centres which could be set up in various parts of a particular country, funded by a combination of Government, Banks and other Lending institutions and Non-Governmental Organisations (NGOs). These Centres are designed to assist potential and existing private entrepreneurs in all the stages of starting up and running businesses.

A Centre should be run by a Board of Directors which consists of representatives from the Business and Public Sectors, and a professional manager. The functions of the Centre will include the following:

Information: These Centres will supply a wide range of information for private businesses; determining what it takes to manage a business, drawing up a business plan, and information on financing, marketing, tax regulations, licensing and more.

Networking: The Centre helps entrepreneurs find local partners, investors and employees, advisors and suppliers of various services. It also helps in finding the right person within the municipality, government office or bank who can provide additional assistance.

Professional Consultation: A team of professional advisors and volunteers from the business communities provide strategic business advice in a wide range of fields including financing, exporting, etc.

Referral to Funding Sources: If the Company's business qualifications render it suitable for running a business, and if its business plan is viable, the Centre will help it obtain financial assistance from any of the business Loan Funds available.

On-Going Support to Entrepreneurs: The Centre makes available to new businesses the advisory services of bankers, lawyers, accountants, expert economists and other experienced business people. The starting entrepreneurs can take advantage of these services in any matter, from information about day-to-day operations to counselling on particular complex problems. In fact, in some cases, loans could be conditional upon continued consultation with a tutor or group of professionals during the course of the first year.

Working Space: Some of the Centres could function as "Business Incubators", offering new entrepreneurs, in addition to all the services, working-space at subsidised rates.

The concept of Business Development Centres has worked successfully in the USA, Malaysia, Israel and Germany, providing training, finance, advisory and extension services and research for establishment and growth of private businesses.

In conclusion, it must be noted that Nigeria and the West African sub-region must follow the international trend towards encouraging free enterprise through the private sector. The future lies in supporting this sector by providing funding and financial advisory services.

This chapter was based on a paper presented at a WAEN/CED Workshop organised by West Africa Enterprise Network at Paris on May 8 - 10, 1996.

Chapter 12

Contractor Financing in the Provision of Infrastructural Facilities

Introduction

The importance and relevance of contractor financing in the provision of infrastructural facilities to the present state of Nigeria's socioeconomic development cannot be over-emphasised. The term "infrastructural facilities" refers specifically to those basic things that facilitate people's life and living, as well as various businesses or pursuits. In considering this subject, attention is focused mainly in the following areas:

- shelter, including residential, office, industrial, institutional, market and other buildings;
- transportation, including roads, railways, airports, seaports, motor parks and stations;
- communication, especially telecommunications and mail services;
- water supply;
- electricity supply;
- environmental protection and control.

These infrastructural facilities constitute the backbone of the national economy. It is a well known fact that the level of development of these facilities in a country is a measure of the living index for her people. It also determines to a large extent the

type of operating environment that is available to the productive sectors of the economy. The efficiency and productivity of the economy is therefore a direct function of the adequacy and reliability of the infrastructural facilities.

The Nigerian situation, as we all know, is such that the existing infrastructure systems and services are burdened by huge backlog of unmet needs. The rate of development in the past have never kept pace with the growth in the economy, while most of the infrastructure projects were not properly selected and executed. The situation is further compounded by financial and institutional constraints which have manifested in our inability to properly operate and maintain what we already have.

The unfortunate result of the above situation is that the productive sectors of the economy are saddled with an operating environment that is already impaired by infrastructural deficiencies. Even this deficient environment is more likely to be further eroded unless urgent steps are taken to adequately rehabilitate and maintain existing infrastructural facilities, with provisions for inevitable future growth.

The main problem with the Nigerian situation is the lack of efficient means of financing and managing infrastructures facilities.

The three tiers of government have always borne the full responsibility of infrastructure provision and management, through various ministries and parastatals, such as Federal/State Housing Development Corporations, Nigerian Airport Authority (NAA), Nigerian Railway Corporation (NRC), Nigerian Telecommunications Ltd. (NITEL), Nigerian Ports Authority (NPA), Nigerian Postal Services (NIPOST), National Electric Power Authority (NEPA).

The present economic situation has seen most of these public sector organisations drifting fast into financial positions where they are barely able to meet their recurrent costs, talkless of

financing new infrastructure investments in the areas under their jurisdiction. Even high-priority projects with high economic and financial returns have had to be abandoned or shelved in the face of the financial squeeze.

Nigerian universities and other institutions of higher learning are not spared this ordeal. These citadels of learning are also faced with the herculean task of meeting ever growing demand for infrastructure systems and services with rapidly shrinking sources of funds.

Present Strategies for Financing Infrastructure

Various strategies have been adopted by these organisations in their effort to solve this problem. Most have tried to contend with the problem through rationalisation and drastic reduction of recurrent and capital expenditures. At the same time, attempts have been made at increasing revenues through the introduction of user-charges and fees for infrastructure services rendered. Prior to this era, especially during the oil boom days, there were no incentives to prudently manage financial resources, recover infrastructure investment costs or develop revenue generation potentials.

This approach has not been very successful due to inherent bureaucratic bottlenecks in these organisations. Besides, most patrons of these infrastructure systems and services tend to be very resistant and uncooperative to the revenue drive of these organisations because of the perceived inefficient and low-quality service delivery.

Other approaches that have been adopted by the government in financing infrastructural development projects include the recourse to both local and international capital markets. Government agencies often try to raise funds in the local capital market by floating development loan stocks and/or direct borrowing from local commercial and merchant banks. Unfortunately, most of the

public sector organisations lack the capability and the financial discipline required for successful operation in the capital market. Also the experiences of most capital market operators and investors with these public sector organisations have not been very encouraging.

From the foreign capital markets, the government have raised substantial infrastructural development loans, either through the issuance of promissory notes or direct borrowings from multilateral development finance institutions such as the World Bank and the African Development Bank. Virtually all government parastatals, including the universities, have benefited in one way or another from government borrowings from these multilateral institutions.

Apart from the maxim that “he who goes aborrowing, goes asorrowing”, the huge debt financing burden coupled with the unhealthy balance-of-payment position of the country have seriously hampered its ability to raise enough funds from the foreign capital market place to finance our infrastructural development needs.

In view of the limitations of the foregoing strategies, we need a clear departure to more viable approach for financing the provision of infrastructural facilities. It is high time that the private sector was fully involved as partners in progress with the public sector in the provision and management of infrastructural facilities. There is no gainsaying the fact that the private sector has always been known to be more efficient and result-oriented in the execution and management of projects.

Fortunately, the Structural Adjustment Programme (SAP) which has been with us since 1986 has already provided the policy framework for private sector participation and cooperation with the government in this regard. The new policy framework is typified by the total reorganisation of the Federal Mortgage Bank, the launching of the National Housing Fund and the licencing of over 200 primary mortgage finance institutions to stimulate massive

housing development by the private sector. Most Nigerians are living witnesses to the commissioning of the Imo Airport which was built mainly through the joint efforts of citizens of old Imo State and the Government. This is where the role of contractor financing in the provision of infrastructure comes in.

The Role of Contractor Financing in Providing Infrastructural Facilities

Generally, contractor financing in project implementation is the arrangement whereby the party (Contractor) employed by the project promoter bears the dual responsibilities of executing the project and raising the required funds. The total financial implications of executing the project, including the contractor's expected profit, are treated as a kind of loan obligation of the promoter to the contractor.

The obligation is subsequently settled on prior agreed terms by the promoter after the project has been completed. The obligations could be amortised and liquidated through instalmental payments by the promoter to the contractor. However, if the project has direct revenue generation potentials, it could be arranged for the contractor to also manage the post-implementation operations, at least until the cost of the project is fully recovered and the debt obligations are liquidated.

Advantages of this approach lies in the fact that most of the potential contractor financiers are better disposed than the public sector institutions towards packaging better infrastructural project proposals that will easily attract the confidence and required patronage of capital market operators and investors. The Contractor financiers are also result-oriented and are more likely to manage the post-implementation operation of the infrastructure system and service to the satisfaction of the patrons. This will guarantee the generation of enough revenue to defray the project cost and all debt obligations.

However every care should be exercised in drafting and negotiating the terms and conditions of the contractor finance agreement to the ultimate mutual benefit of all parties concerned (including the patrons of the infrastructure systems & services). The obligations of the contracting parties should be comprehensively and clearly specified to ensure that the project is successfully executed and all the objectives met. We have had very frustrating experiences in the past where the shoddy handling of this crucial stage of contractor financing arrangement led to project implementation failure and huge financial losses.

Our universities and other institutions of higher learning could benefit tremendously from “Contractor financing in the provision of infrastructural facilities” in two ways. One, the contractor financing approach could be employed in the provision of their much needed infrastructural facilities such as Student Hostels, Staff Quarters, Research Laboratories and Reference Libraries. If adequate arrangements are made, private sector developers could provide and manage these much needed facilities at the various campuses on the basis of reasonable user-charges and fees.

Alternatively, the various in-house consultancy outfits at the tertiary institutions of learning could be organised as successful contractor financiers of infrastructural projects both for their respective institutions and for other public sector organisations.

These consultancy outfits could be more resourceful in packaging bankable infrastructure facility development proposals that can easily sail through the capital market place. This is definitely an “Alternative Source of Revenue Generation for Universities and institutions of Higher Learning”.

Original paper was presented at a workshop organised by Patrioni Ltd in Lagos on October 18, 1994.

Chapter 13

Role of Private Sector in the Production of Defence Equipment

Introduction

Nigeria's Defence Policy

For so many years, Nigeria could be described as not having a very clear policy on Defence issues. This unfortunate state of affairs could be attributed to the failure of various governments to define in very clear terms what the country's national interests and objectives were.

As a result, the nation initially embraced the idea of a defence pact with Britain leading to the signing in 1958 of the Anglo-Nigerian Defence Pact for the training of the country's military personnel in Britain and the setting up of a British military base in Nigeria. However, this pact was abrogated six years later in 1964 owing to the opposition of some nationalist forces who perceived that the arrangement was being inspired by some neo-colonial considerations.

Subsequent attempts at formulating a National Defence policy have been largely driven by the ideal of Pan Africanism with very unrealistic goals and objectives. This has led to the pursuit of inoperable objectives, which tended to emphasise Africa as the theatre of Nigeria's foreign policy and therefore defence policy and initiatives. Although such a goal is considered noble, it has, however been pursued in a manner which tended to neglect the

need to effectively monitor and influence the security situation in countries whose boundaries are contiguous to ours. The consequence was that while, for instance, Nigeria pursued an aggressive foreign policy in far away Southern Africa, it allowed at the same time the penetration and consolidation of French territorial interests around itself. The situation the country has found itself in Chad is a reminder in this respect.

The ambiguities exemplified by the actions enunciated above have led to defence policy experts and in particular M.A. Vogt propounding a theory of Concentric Circles as the basis of Nigeria's Defence Strategy in line with its foreign policy thrust. This theory is predicated on the formula that our National Defence Policy and initiatives should be prioritised to, (i) seek to protect our territorial boundaries, (ii) ensure the security of neighbouring countries and the ECOWAS sub-region respectively, after which the objectives of being a regional power may then be addressed. This would appear to be the most valid theory so far put forward in this area. It is a theory which is not only realistic but also seeks to lend clarity to the defence Policy goals and objectives. Furthermore, it is rooted primarily in the pursuit of realistic objectives as well as the need to match set goals with the resources available to the country. Rather than seek to become a regional power, it makes sense instead to transform the country into a nation with considerable influence on its neighbours and in the West African sub-region. Thereafter, the Pan Africanist goal of making Africa the centrepiece of our defence policy could then be considered.

The Size of the Defence Equipment Market in Nigeria

Before we look into the possibility of private sector participation, it would be of interest to know how big the market for defence equipment is in Nigeria. But first, a look at the nature of demand for defence equipment.

Nature of Demand

Some of the basic features of the defence industry derive from the peculiar nature of the products. For one thing, being the only legitimate organ empowered with the management of instruments of violence, governments are invariably the sole customers of the defence industry. For most economies, this then means that the defence market is a direct function of the state's defence budget. One of the inevitable consequences of this linkage for Nigeria is the concomitant requirement that for a large production or market, one must assume a large local/regional/continental defence expenditure. This requirement usually brings the defence industry under social criticism for presumably diverting limited resources from other competing sectors such as health, education and the civilian economy in general. Of course, arms production can, in fact, have important economic spin-offs in view of the activities and expenditures associated with weapon manufacture or purchase such as creation of national infrastructure of roads, air-field, education and skilled manpower training. However, what is not always clear, especially within the context of fragile African economies, is whether channelling funds through defence budget is the most constructive or effective way of pursuing economic development.

Another peculiar feature of the defence industry is the nature of the market itself. For the most part, the forces of demand and supply or even those of a planned economy are not always granted free reign. On the other hand, irrespective of economic theory of production, arms sales/transfer have only been an effective barometer of international affairs not of economic dynamics. In fact, the prime significance of most arms sales derive from their political dimension as against any economic or military consequences.

Size of Market

On a global basis the defence market in Africa is insignificant. Total military expenditure was a mere 1.5% of the World's in 1983 and 1.3% in 1993, of which more than half was accounted for by the five North African countries. A similar picture is given by the level of arms transfer deliveries. See Tables 13.1 and 13.2.

TABLE 13.1: Arms Transfer Deliveries by Regional Organisation (1983-1993) (Amount in Milion US Dollars Current)

		1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
D	IM	10360	11700	12440	12880	12440	13160	12180	10580	7775	5500	4810
	EX	44890	48770	45980	47110	53980	48950	45920	42200	27920	22280	20220
DN	IM	38910	44810	37950	38520	47810	43390	3910	35050	22280	18750	17190
	EX	4575	7730	4540	4320	6165	7735	5450	3235	2640	1860	1755
AA	IM	7015	7640	5345	4915	6730	6200	4540	2455	1255	485	280
	EX	85	80	190	90	150	120	120	120	20	85	140
NA	IM	3355	3090	2470	2005	1750	2015	1845	900	590	150	40
	EX	80	50	90	70	70	60	40	60	20	10	0
SSA	IM	3640	4540	2855	2890	4940	4175	2595	1555	605	315	240
	EX	5	0	10	10	0	0	30	10	0	5	0

D -Developed; DN- Developing; AA- Africa All; NF-North Africa; SSA- Sub Saharan Africa. IM-Import; EX-Export.

Source: World Military Expenditure SIPRI Year Book

TABLE 13.2: Military Expenditures by Regional Organisation
(1983 - 1993) (Amount in Million US Dollars Current)

		1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
DEVELOPED	ME	666.5	709.8	755.6	797.2	832.5	860.3	866.6	849.1	787.4	688.8	647.6
	ME/GNP	5.5	5.5	5.4	5.4	5.4	5.1	4.8	4.5	4	3.7	3.4
DEVELOPING	ME	176.8	184	187.5	190.7	167.9	186.9	191.9	224.3	233.6	243.8	220.8
	ME/GNP	6.6	5.8	5.4	5.2	4.7	4.3	4	4.4	4.2	3.7	3.1
AFRICA ALL	ME	12.3	13.2	12.2	12.6	12.3	12.9	13.6	13.8	12.6	12.7	11.5
	ME/GNP	5.4	5.5	4.8	4.8	4.5	4.4	4.3	4.1	3.6	3.5	3.1
N. AFRICA	ME	6.5	7.3	6.5	6.3	5.1	5.5	5.8	5.3	4.5	5	4.6
	ME/GNP	8.6	9.4	7.7	7.8	6	8.4	5.2	5.1	4	4.3	4
SUBSAH AFRICA	ME	2.5	2.7	2.8	3.2	3.5	3.5	3.5	4	4.4	4.5	4
	ME/GNP	3	3.1	3	3.2	3.3	3	2.8	3	3.1	3.1	2.7

Source: World Military Expenditure SIPRI Year Book.

For Nigeria, military expenditure as reported by World Military Expenditure in SIPRI Year Book, was \$292 million in 1983. It fell to \$267 million in 1984, \$235 million in 1985. It suffered a decline in 1986 and 1987 at \$206 million and 147 million US dollars respectively. Between 1990 and 1993, military expenditure has hovered around the \$200 million (Table 13.3). As a percentage of the GNP, military expenditure has a gradual decline from 1.9% in 1983 and 1984 to 0.6% in 1993 see Table 13.3.

At this juncture, we should note that Nigeria military expenditure during the period 1983 - 1993 was far above what is reported in the Tables. The problem is that during the period, especially between 1988 – 1994, over \$700 million was spent on defence from the Central Bank of Nigeria (CBN) Dedication Account, an information which became only known following the presentation of the report of the Panel on the Reform and Reorganisation of the CBN.

On arms delivery, the picture is almost the same. In 1983, Nigeria's import totalled \$330 million. This rose to \$575 million in 1984 and then declined progressively to 1987 and from there on, sharply to 1993 when total importation for the year was registered at 50 million US dollars (see Table 13.4). Again, the remark made above as to the completeness of reported figures is relevant. This notwithstanding, the comments and the comparative analysis still stand, since we may likewise not be sure of the actual defence spending of any country due to the way such information is secretly guarded. But how does Nigerian market compare with those of her neighbours?

TABLE 13.3: Military Expenditure of ECOWAS States(1983 – 1993) (Amount in Million US Dollars Current)

		1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
Benin	ME	28	29	33	32	34	38	35	35	NA	26	0
	ME/GNP	2.5	2.4	2.4	2.2	2.3	2.4	2.2	2	NA0	1.3	NA
Burkina Faso	ME	35	37	38	55	49	53	NA	71	96	NA	60
	ME/GNP	2.4	2.4	2.2	3	2.5	2.5	NA	3	3.7	NA	2.2
Chad	ME	7	10	15	21	29	41	57	NA	59	31	NA
	ME/GNP	1.3	1.7	2	2.9	4.1	4.8	6	NA	5.3	2.7	NA
Cape Verde	ME	NA	NA	NA	NA	NA	NA	NA	NA	1.2	1	NA
	ME/GNP	NA	NA	NA	NA	NA	NA	NA	NA	1.2	1	NA
Cote D'ivoires	ME	7.4	83	83	98	135	155	115	126	123	134	NA
	ME/GNP	1.3	1.3	1.2	1.4	1.9	2.1	1.6	1.7	1.6	1.7	NA
Gambia	ME	NA	NA	NA	NA	1	NA	NA	NA	NA	5	3
	ME/GNP	NA	NA	NA	NA	0.5	NA	0.5	NA	NA	1.5	0.8
Ghana	ME	8	16	29	29	31	16	24	25	25	35	NA
	ME/GNP	0.4	0.6	1	0.9	0.9	0.4	0.6	0.6	0.5	0.7	NA
Guinea	ME	32	33	NA	NA	NA	24	NA	28	31	43	NA
	ME/GNP	3.3	3.1	NA	NA	NA	1.2	NA	1.2	1.2	1.5	NA
Guinea Bissau	ME	10	5	4	4	4	NA	5	NA	NA	7	NA
	ME/GNP	7.9	4	3	2.7	2.4	NA	2.7	NA	NA	3.3	NA
Liberia	ME	35	29	37	48	53	56	NA	NA	NA	NA	NA
	ME/GNP	2.8	2.3	2.7	3.5	3.8	NA	NA	NA	NA	NA	NA
Mali	ME	33	34	36	39	42	43	47	NA	NA	61	5.8
	ME/GNP	2.5	2.4	2.4	2.3	2.3	2.4	2.2	NA	NA	2.4	2.2
Mauritania	ME	34	NA	38	35	28	NA	33	32	30	37	37
	ME/GNP	6.5	NA	6.9	5.9	4.4	NA	4.4	4.2	3.7	4.4	4.1
Niger	ME	11	10	13	13	NA	18	23	NA	29	28	32
	ME/GNP	0.7	0.7	0.8	0.8	NA	1	1.2	NA	1.3	1.3	1.5
Senegal	ME	88	88	96	100	89	91	93	100	102	151	134
	ME/GNP	2.7	2.7	2.8	2.7	2.2	2.1	2	2	1.9	2.7	2.4
Sierra Leone	ME	4	3	3	NA	4	3	NA	6	16	15	14
	ME/GNP	1	0.7	0.8	NA	0.8	0.7	NA	1.1	2.7	2.5	2.2
Togo	ME	20	22	27	32	41	NA	46	46	45	43	48
	ME/GNP	2.3	2.3	2.6	2.9	3.6	NA	3.3	3.1	3	3.1	3.9
Sub – Total	ME	419	399	452	506	540	538	478	469	560	619	386
Nigeria	ME	292	267	235	206	147	197	NA	214	218	189	210
	ME/GNP	1.9	1.9	1.5	1.2	0.8	1	NA	0.8	0.8	0.6	0.6
Total	ME	711	666	687	712	687	735	478	683	778	808	596

Source: World Military Expenditure SIPRI Year Book.

Role of Private Sector in the Production of Defence Equipment

TABLE 13.4: Arms Transfer Deliveries ECOWAS States (1983 – 1993) (Amount in Million US Dollars Current)

		1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
Benin	IMPORT	50	10	10	10	0	10	0	5	0	0	0
	EXPORT	0	0	0	0	0	0	0	0	0	0	0
Burkina Faso	IMPORT	5	20	20	30	0	10	10	20	0	5	13
	EXPORT	0	0	0	0	0	0	0	0	0	0	3
Chad	IMPORT	20	40	20	40	100	50	30	50	0	5	10
	EXPORT	0	0	0	0	0	0	0	0	0	0	0
Cape Verde	IMPORT	0	0	10	5	5	5	5	5	0	0	0
	EXPORT	0	0	0	0	0	0	0	0	0	0	0
Cote D'ivoire	IMPORT	30	20	20	0	5	0	20	0	0	0	0
	EXPORT	0	0	0	0	0	0	0	0	0	0	0
Gambia	IMPORT	0	10	10	10	10	10	0	0	5	5	0
	EXPORT	0	0	0	0	0	0	0	0	0	0	0
Ghana	IMPORT	10	20	0	10	20	20	30	5	0	0	0
	EXPORT	0	0	0	0	0	0	0	0	0	0	0
Guinea	IMPORT	50	50	70	70	70	20	10	20	5	0	0
	EXPORT	0	0	0	0	0	0	0	0	0	0	0
Guinea Bissau	IMPORT	10	40	10	20	20	30	20	5	5	0	0
	EXPORT	0	0	0	0	0	0	0	0	0	0	0
Liberia	IMPORT	10	20	10	5	10	10	0	10	0	0	0
	EXPORT	0	0	0	0	0	0	0	0	0	0	0
Mali	IMPORT	5	40	10	5	40	70	10	10	10	0	0
	EXPORT	0	0	0	0	0	0	0	0	10	0	0
Mauritania	IMPORT	10	20	0	5	0	10	20	0	0	0	0
	EXPORT	0	0	0	0	0	0	0	0	0	0	0
Niger	IMPORT	0	0	0	20	5	5	5	0	0	0	0
	EXPORT	0	0	0	0	0	0	0	0	0	0	0
Senegal	IMPORT	5	0	5	5	30	10	5	0	5	10	0
	EXPORT	0	0	0	0	0	0	0	0	0	0	0
Sierra Leone	IMPORT	5	0	0	0	10	0	0	0	0	10	0
	EXPORT	0	0	0	0	0	0	0	0	0	0	0
Togo	IMPORT	0	0	0	10	0	5	5	0	0	0	0
	EXPORT	0	0	0	0	0	0	0	0	0	0	0
Sub – Total	IMPORT	210	290	195	245	325	265	170	130	30	35	23
	EXPORT	0	0	10	0	0	0	10	0	0	0	3
Nigeria	IMPORT	330	575	340	320	270	30	10	20	130	110	50
	EXPORT	0	0	0	5	0	0	20	0	0	0	0
Total	IMPORT	540	865	535	565	595	295	180	150	160	145	73
	EXPORT	0	0	10	5	0	0	30	0	0	0	3

Source: World Military Expenditure SIPRI Year Book

TABLE 13.5: Military Expenditure of Nigeria and Selected Countries (1983 – 1993) (Amount in Million US Dollars Current)

		1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
Nigeria	ME	292	267	235	206	147	197	NA	214	218	189	210
	ME/GNP	1.9	1.9	1.5	1.2	0.8	1	NA	0.8	0.8	0.6	0.6
Tunisia	ME	334	242	293	297	286	249	288	283	302	324	492
	ME/GNP	4.9	3.2	3.6	3.6	3.2	2.7	2.8	2.4	2.4	2.3	3.4
South Africa	ME	3266	3161	2940	3114	3721	3970	4340	4446	3840	3236	2496
	ME/GNP	4.8	4.2	3.8	3.9	4.4	4.3	4.4	4.4	3.7	3.1	2.7
Cameroon	ME	146	154	177	206	205	154	150	161	150	158	181
	ME/GNP	2	1.9	2	2.1	2	1.6	1.5	1.7	1.6	1.8	2.1
Pakistan	ME	1300	1351	1591	1778	2182	2283	2293	2716	2569	2867	3111
	ME/GNP	6.2	5.9	6.3	6.5	7.4	6.9	6.4	6.9	6.1	6.2	6.4

Source: World Military Expenditure SIPRI Year Book.

Comparative Analyses

With regard to the size of available market, information we gathered and analysed statistics on military expenditure were from the World Military Expenditure SIPRI Year Book. Analysis of Table 13.4 shows the military expenditure of Nigeria and her neighbours during the period 1983 - 1993. In particular, we observe that on the whole, Nigeria's neighbours put together are spending as much as Nigeria. Cameroun, in particular, seems to be matching Nigeria's expenditure in military equipment over the past decade (See Table 13.5). With respect to the ECOWAS sub-region, Table 13.6 shows that Nigeria's demand for military equipment constituted about 41 % of the regional demand in 1983. This, however, dropped to 23.4%. in 1992. The size of the regional market grew from \$711 million in 1983 to \$808 million in 1992. Of the total demand \$540 million was spent on importation of defence equipment in 1983 and only 145 million US dollars was spent on imports in 1992, (see Table 13.4). Nigeria accounts for more than 61% of the imports in 1983 and 75.8% in 1992. Tables 13.3 and 13.4 show that although the defence expenditure of other West African countries put together was higher than that of Nigeria, the country however appears to be the only one importing defence equipment.

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This notwithstanding, the total regional imports has declined drastically. Could this imply greater reliance by the other West African countries on locally produced defence equipment, supplies and services? This might not be unconnected with the general devaluation of the currencies of most West African countries which made importation very expensive.

TABLE 13.6: Military Expenditure of Nigeria and Her Neighbours (1983-1993) (Amount in Million US Dollars Current)

		1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
Cameroon	ME	146	154	177	206	205	154	150	161	150	158	18.1
	ME/GNP	2	1.9	2	2.1	2	1.6	1.5	1.7	1.6	1.8	2.1
Benin	ME	28	29	33	32	34	38	35	35	NA	26	NA
	ME/GNP	2.5	2.4	2.4	2.2	2.3	2.4	2.2	2	NA	1.3	NA
Chad	ME	7	10	15	21	29	41	57	NA	59	31	NA
	ME/GNP	1.3	1.7	2	2.9	4.1	4.8	6	NA	5.3	2.7	NA
Niger	ME	11	10	13	13	NA	18	23	NA	29	28	32
	ME/GNP	0.7	0.7	0.8	0.8	NA	1	1.2	NA	1.3	1.3	1.5
Sub- total		192	203	238	272	268	251	265	196	238	243	213
Nigeria	ME	292	267	235	206	147	197	NA	214	218	189	210
	ME/GNP	1.9	1.9	1.5	1.2	0.8	1	NA	0.8	0.8	0.6	0.6

Source: World Military Expenditure SIPRI Year Book.

It is worthy of note that in the decade 1974 - 1983 reports have it that Nigeria spent twenty times the amount spent by all its neighbours combined (i.e. Cameroun, Benin, Chad, Niger) and four times the military expenditure of all ECOWAS countries put together.

The conclusion to be drawn from the above is obvious. The amount of military expenditure as a percentage of GNP for Nigeria is far below that of any of its neighbours especially since 1988 and indeed it is the lowest in West Africa. From a layman's point of view, a military expenditure of 0.6% of GNP is quite acceptable in hard economic times. However, given that the market is almost a monopsony, the attractiveness is limited unless there are strong export possibilities, and/or multi-product operation.

The size of the Nigeria's market is actually small when compared to that of Pakistan, a country with similar level of GNP, or to that of South Africa, a former rival and now presumably an ally. In fact, even a country as small as Tunisia has a bigger military expenditure than Nigeria. The declining level of military expenditure by Nigeria could be attributed partly to the declining fortunes of the country or is partly a reflection of the extent to which we have failed to keep up our defence procurement in line with our regional aspiration (see Table 13.5). If Nigeria seeks to be a regional power like Pakistan and South Africa, it must first of all revamp the economy so that the economy can sustain a respectable level of equipment procurement.

Should Nigeria have a Local Defence Industry

What are the requirements for a viable defence industry?

A justification for the establishment of a local defence industry in Nigeria could be seen from four different perspectives namely:

Political: The development of a local defence industry that can be seen as primarily a matter of prestige, an expression of national sovereignty and an assertion of independence (*if not the reality of it*).

Strategic: A domestic defence industry as part of a national strategy to diversify sources of supply or to answer any arms embargo.

Economic: Local defence industry as part of economic strategy of foreign exchange management and alleviation of balance of payments problems; it may even become a source of export earnings.

Social: Local defence industry as part of job creation and skill development strategy.

Given the nations experience during the civil war, the military edge of South Africa over Nigeria, the potential threat from the Francophone neighbours and even the need for import substitution in some basic equipment, it is necessary that the Nigerian defence industry must be sufficiently developed. This would also help Nigeria to maintain its regional power status and sustain such a regional force posture.

However, there are certain prerequisite for a successful development of a local defence industry. First is the attainment of a given level of economic development. Defence spending are most often not as critical as expenditure on agriculture, education, health, water supply and other developmental needs. Hence the burden of defence expenditure, given by expenditure as a percentage of GNP, must be kept at a relatively low level. Second, a nation must develop technical manpower and management expertise in the production of iron and steel, non-ferrous metal, metal products, machinery, electrical machinery, shipbuilding and maintenance and production of motor vehicles. Third, a nation must have a large quantity of good quality basic metal or a secured

source of supply. Last but very important, a comprehensive programme of research and development in the armament industry linked to the objective of the defence policy of the country.

Current Government Policy

In 1964, the government established the Defence Industry Corporation (DIC). This gave the indication that Nigeria was embarking on a policy of local production of selected defence equipment since no country can be self-reliant. Unfortunately, the history of this corporation has been characterised by official neglect and this has significantly impaired its ability to pursue the goals for which it was established.

Between 1975 - 1980, a loan of N100 million was earmarked for the company in the Budget. (See Table 13.7 Below).

TABLE 13.7: Estimates of Loans Earmarked for Defence Industry Corporation (DIC)

ITEM	1975 – 1980 ESTIMATES N	1981 – 1985 ESTIMATES N
A. Loans		
(i) DIC-	100,000,000	125,000,000
(ii) DIC Army Armoured Vehicle Assembly Project (Steyr)	-	-
B. JOINT FORCES & MOD (Inter-services Projects)	192,000,000	160,000,000
C. ARMY	2,015,000,000	1,388,392,000
D. AIR FORCE	1,025,000,000	930,000,000
NAVY	601,776,000	580,000,000
Sub Total	3,183,392,000	3,933,664,000

Source: Compiled from Annual Revenue, Recurrent and Capital Estimates of the Government of the Federal Republic of Nigeria, Federal Government Press, Lagos (1975-85).

From all indications, this was inadequate and probably accounted for the company's inability to make any serious impact. Significantly, this was a period of military rule when those in power ought to have appreciated the relevance of such an outfit to the development of local defence infrastructure. And between 1981 – 1985, only #125 million was budgeted specifically for the DIC Army Armoured Vehicle Assembly Project with Steyr. Again, given the country's overall defence budget during this period, the level of funding available to DIC was, to say the least, inadequate and incapable of putting the Corporation in a position to play the role expected of it within the Defence establishment.

A reconsideration of this policy is informed by the decline in revenues available to government for the implementation of various development programmes. Given the state of the economy, and the various demands by other sectors on government, private sector participation in the defence needs to be encouraged. This participation could be by way of funding or by actual participation in the manufacture of defence products.

Potentials

As pointed out earlier, there are four basic reasons which can singly or jointly form the rationale for the establishment of a local defence industry.

Though in the previous section one has suggested that because of the declining fortunes of government the private sector should be involved in the development of defence equipment, there are however other factors that determine the success of private sector involvement. First is the market size; second is the existence of basic industrial infrastructure from which a meaningful defence industry can grow and, third; is the existence of technical skills and efficient management needed in a defence equipment manufacturing industry.

The internal market for defence equipment, it has been argued, is relatively a small one. In order to overcome this limitation, the possibility of export must exist. Again and more importantly, to succeed the country must integrate the defence industry development with efforts towards the general industrialisation of the economy.

Nigeria's defence Policy and initiatives have prior to 1995 been silent on the issue of Private Sector involvement. As a matter of fact, it is only in the area of Procurement and supply that individuals and companies have been allowed to play some significant roles. In the more crucial areas of Research and Development (R & D) as well as Local production of weapons and defence systems, the private sector has been precluded from active participation. This could be explained by the widely held view in the Military circles that private sector involvement would pose security risks to the nation and its interests.

However, the total exclusion of the private sector has had its own consequences on the pace of development in this area, calling for a re-examination of this policy. A number of reasons would support such a reconsideration. First, the absence of private sector initiative as has been proven by our experience in the other sectors of the economy would impair the development and growth of an efficient and virile Defence Industry. In most advanced countries, key players in the Defence Industry are private sector companies, and their involvement has led to the rapid transformation of the local defence industry given their extensive involvement in Research and Development, - a factor considered critical for the maintenance of competitive edge within the industry.

For a start, the funding of DIC, which is understood to be relatively well equipped for the production of ordinance weapons could be restructured such that the government will continue to provide equity capital while the private sector would provide long/medium subordinated debt finance. The infusion of private sector fund

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would definitely transform it and enable it to fulfil the role for which it was established.

Again, the existing industrial infrastructure capable of producing equipment for the military should be restructured and revitalised by the injection of private sector funds, skill and management.

Potential areas exist in the repair and maintenance of naval equipment and aircrafts, and the development therefrom of light aircrafts and naval vessels. Local production of light patrol boats should be relatively easy in Nigeria. There are already facilities for shipbuilding at Snake Island, Naval Dockyard. In fact naval vessels require heavy maintenance and from good maintenance efforts, these facilities can be up-graded to actual building of naval crafts of all descriptions.

Economic Benefits Accruing to both the Government and the Private Sector

Role of Government in industrial development

It is now generally accepted that the role of any government in all economic development, including defence-industrial development, should be to:

- create business environment conducive to maximising the private sectors contribution to industrial development;
- restructure all industries to improve efficiency and to concentrate on services complementary to private activity;
- improve resource mobilisation and allocation through financial sector development;
- directly foster private enterprise through resource transfer and provide other support for entrepreneurial efforts.

In line with the above, the defence industry as well as the private sector should not be excluded in the development of any defence equipment so long as it will only be sold to the home and friendly

government. In essence, the private sector should be seen as partners in progress and should therefore, be given all necessary encouragement in their complementary efforts. If this is done then the society stands to gain from increased efficiency, exemplified by good quality products at the lowest prices. More importantly, the government is saved from diverting its scarce resources to the production of what the private sector could do better. Furthermore, success by the private sector in the manufacture and possible export of defence equipment will bring about an increase in the tax revenue of government, the foreign exchange earnings and lead to a reduction of pressure on balance of payments.

On the other hand, in areas such as repair and maintenance and the manufacture of ordinance, as we have noted above, the private sector could profitably complement government efforts thereby bringing the full benefits of privatisation to both sectors.

The way forward

From the foregoing analysis, it is clear that a re-examination of Nigeria's defence policy would be necessary to engender private sector participation in this area. It is however important to note that one shares, to some extent, the fear that private sector involvement could pose security problems if pursued in an uncoordinated manner. Therefore, the suggestions put forward would yield expected benefits if they are implemented within a framework that recognises the need for monitoring and regulation without sacrificing the need for efficiency in the implementation of Nigeria's defence policy.

Setting up a Defence Research and Development Fund

Given the very significant expenditure involved in Research and Development (R & D), it is high time then for the establishment of a Defence Research and Development Fund with active private sector support, to pursue, among others, the following goals:

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- Provision of grants to universities and other institutions involved in research in the area of defence studies with emphasis on weaponry and related defence systems;
- Provision of seed capital for private sector firms intent on setting up companies with the sole aim of locally manufacturing arms and ammunitions of various categories;
- Provision of some form of conducive climate for foreign firms desirous of establishing arms/ammunition factories within Nigeria.

The amount to be set aside for this purpose must at all times be dictated by the level of resources available to the country. In lean times, such a fund must not assume very significant proportions relative to the GNP. Also an appropriate machinery must be set up for administering the fund to ensure that the objectives for which the fund was set up are not frustrated. One may consider a Defence Industrial Committee with membership from government, the armed forces, the academia and strategic research organisations and the private sector with terms of reference that include the power to recommend private industrial participation in research, development and production of defence equipment.

Fiscal Incentives

Aside from the provision of seed money from the Defence Research and Development Fund (DRDF), a number of other incentives could be considered such as the following:

- Granting of duty concession for equipment imported for the sole purpose of locally manufacturing arms and ammunitions;
- Granting tax breaks and concessions to companies involved in the local manufacture of arms and ammunition;
- Developing the required local infrastructure in some designated areas aimed at encouraging companies to set up

in such places. A package of incentives similar to what the country has for the Export Processing Zone could be considered.

The above actions could be complemented by inviting foreign companies with the necessary know-how to set up in Nigeria to produce both for domestic and export markets. This will help promote acquisition of technical skills necessary for the production of defence equipment.

It must be pointed out, however, that military technology is very difficult to acquire. This is because most countries jealously guard against the dissemination of information on their military technology and therefore their security. All that is required by any country to grow in military technology is a very strong determination and a constant policy to enhance the growth of the industry.

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Chapter 14

The 1994 Budget: *Expectations and Achievements*

Shall we say that all is well? Shall we continue to praise by force of habit or practice that which is wrong? We would ruin the country.

(Maximilien-François-Marie-Isidore de Robespierre July 26, 1794)

Background

Since oil became a major foreign exchange earner and contributor to Gross Domestic Product, other sectors of the economy, especially agriculture and manufacturing, were relegated to the background. The end result is that the non-oil sector of the economy has not only stagnated but consistently declined while crude oil revenues have not been managed effectively to stimulate desired growth levels and sustainable economic development. Therefore, Nigeria still remains basically a poor country despite abundant natural and human resources. Major structural defects in our economy have manifested in several areas.

Macro-economic structures have deteriorated due to intractable inflation, a suffocating internal and external debt burden continued and seemingly irreversible Naira depreciation, increasing import dependence, high and steadily increasing interest rates, and erosion of savings and investments, with a consequent industrial decline and increasing unemployment.

Industry is still largely dependent on imported raw materials while agriculture has declined to a level where Nigeria has become a major importer of food items. Infrastructure is decaying and does not meet the demands of a rapidly increasing population and a modern developing industrial sector. Human resources development has suffered from neglect as institutions and programmes have failed to keep pace with global competitive and technological requirements.

Limited progress has been made in industrialisation since industry faces low capacity utilisation and generally cannot compete with cheap imported products, often of inferior quality and often imported without payment of the necessary duties.

In order to address these structural problems, the Babangida administration introduced a Structural Adjustment Programme (SAP) in 1986 aimed at:

- restructuring and diversifying the productive base of the economy with a view to reducing dependence on the oil sector and imports;
- achieving fiscal balance and ensuring balance of payments viability;
- laying the basis for sustainable and non-inflationary growth;
- reducing unproductive investments in public sector operations, and intensifying private sector growth potential.

However, the full anticipated benefits of SAP are far from being realised. As at the time the SAP era ended on 10th January 1994, none of the objectives had been fully realised. Inflation was at all time high (about 100%). Interest rate was high, Naira was unstable and continuously depreciating while our balance of payments position had actually worsened.

Expectations

Given the above background, what could we have expected from the 1994 budget?

(i) Foreign Exchange Management

It was generally acknowledged that the wide gap (N22/\$ AFEM, and N48/\$ free market) between the, AFEM exchange rate and the free rate was not healthy for the economy. Just as it was generally acknowledged that the major causes of the depreciation of the Naira were fiscal indiscipline and inadequate supply of dollars. Therefore, the expectation was that the budget would impose fiscal discipline by running a balanced budget, tighten monetary policy based on market instruments, remove barriers to foreign exchange inflows, remove barriers to foreign portfolio investments, deregulate the foreign exchange market by abolishing 1962 Exchange Control Act, reduce documentation requirements for foreign exchange imports, e.g. documentation should be for statistical purposes only and stimulate export expansion and encourage repatriation of proceeds through the banking system at market determined rate.

What did the budget give us? – The Naira exchange rate was pegged at N22.00 to one US dollar. All foreign exchange held by banks and non-bank public must now be channelled through and deposited with CBN. The Central Bank will allocate foreign exchange administratively through banks. The criteria for such allocation have not yet been specified.

(ii) Interest Rate

The high interest rate experienced during the 1993 year has been as a result of the rapid expansion in money supply which led to high inflationary expectations. With budget deficit of about N90 billion and inflation running at 100% per annum, any interest rate below this level would have resulted into a negative Real interest rate.

The foreign exchange bidding system used last year which required a bidder to stock away in CBN about four times the actual amount needed to procure the required dollar did not help matters. Therefore, the expectation was that the budget would put in place appropriate fiscal and monetary policies to drastically reduce inflation and therefore inflationary expectations. However, the government has imposed a maximum lending rate of 21 % per annum through administrative fiat.

(iii) Inflation and Spending Reform

It is generally agreed that major economic problems facing the nation include unsustainable federal budget deficit, high rate of inflation, excessive money supply, an almost extinct, or at best debilitated real sector and huge and rising external and internal debt overhang.

Extra-budgetary spending increased from 4% of GDP in 1986 to 17% of GDP in 1992. The increase in extra-budgetary expenditure has been facilitated by the use of mechanisms which are outside the budgetary process. These include the various dedication accounts, the draw-down of stabilisation account, and overdraft (Ways and Means) from the CBN.

The general expectation was that the 1994 budget would reform the budgetary process, ensure that all incomes from all sources and all expenditure be channelled through the budget, phase out the use of dedicated accounts, make commitment to budgetary discipline, improve transparency and integrity of government expenditure and accounting especially in the area of oil proceeds, rationalise and re-prioritise all capital projects, slow down on all capital projects after prioritisation eliminate subsidies and subventions to public enterprises and a balanced budget maintained.

The budget promises to restrict expenditure to realised revenue only. There is a drastic reduction in capital expenditure compared

to prior year. This reduction is desirable but not adequate. There was no economic justification for the huge outlay for Abuja as specified in the 1994 budget in this hard time. It is also difficult to understand the rationale for maintaining recurrent expenditures at prior year level in view of government's promise to plug leakages, reduce corruption and rationalise public sector.

(iv) Debt Management

The policy on debt management is not yet clear as the CBN and Ministry of Finance are yet to evolve effective strategies as directed in the budget. However, there is a huge under-provision for external debt servicing. A meagre \$1.8 billion was provided for debt servicing even though some \$4.5 billion have been accumulated in debt arrears. It will be very difficult to reach agreement with our external creditors on debt rescheduling and restructuring. The resulting debt overhang may worsen the economic situation.

(v) Capital Market

The Nigerian capital market is underdeveloped. The list of quoted companies is small and has not shown any substantive growth in the past thirty years. Most companies whose shares are traded are grossly undercapitalised. The market is also not benefiting from funds from foreign and institutional investors. Equity from these sources would have introduced some vibrancy into the market and ensure easier access to relatively cheap funds.

It was expected that the budget exercise would be used to harmonise NSE and SEC roles to reduce regulation and decrease cost, repeal 1962 Exchange Control Act, to encourage foreign portfolio investment and therefore internationalise the capital market, repeal Lagos Stock Exchange Act 1961 to encourage institutional investors such as NPF to trade on the Exchange, and repeal the Nigerian Enterprises Promotion (NEP) Act 1977 to make the investment climate more receptive to foreign investors. The budget showed no new development or initiative in this area.

Selected Critical Issues in the 1994 Budget

One would like to analyse certain key issues in the budget which are considered very critical to the operating condition and inflow of foreign investments. But before doing that, one would like to opine as to the rationale behind the 1994 budget.

Firstly, one can say that the budget was a backlash of major policy failure of the last eight years. Although the policy conceptualisation and framework of the so called SAP years were fairly good – implementation was not only faulty but bastardised. The result was that deregulation and market forces as a whole became unwelcome and almost nearly objectionable words.

Every manner of evil in the body politic and economy was therefore attributed to deregulation and market forces. We have tried regulation up to 1986 and it did not work, we then switched over to deregulation as a long term policy framework. However, after eight years or so we can no longer pretend that deregulation should not by now be showing strong signs or signals that we are on the right path.

Despite its considerable success, what easily comes to mind are the problems that resulted due to faulty implementation namely increased macro-economic instability as exemplified by high and unstable interest rates, high and rising rate of inflation, fast depreciating Naira, declining productivity, low utilisation of installed industrial and agricultural capacity, huge debt burden and absence of foreign investment inflows. Therefore, given the scenario and the general perception that the hardships in the country were attributable to deregulation and market forces, it was generally believed that command and control policies were better policy framework than deregulation.

The question that is yet unanswered is this: Did the government derail from market forces as a policy or was it by default? If the government derailed from market forces as a policy, it would have

introduced price control as a necessary component of its stance. In the absence of any price control, one can charitably assume that it was by default. This assumption is buttressed by the statement of General Abacha that “While government remains committed to the policy of deregulation and to safeguarding the integrity of market forces it by now recognised that one of the fundamental factors which have further complicated the national economic crisis is the low exchange rate of the Naira in relation to other currencies”. This assurance notwithstanding, the budget as presented leads to the conclusion that the country has reverted to an era of economic controls.

There are two interesting issues in the budget that are briefly analysed here:

- (i) The Revenue Projection and;
- (ii) Areas of derailment from the operations of Market forces.

Revenue Projection – A total of #143.16 billion has been projected as Federal government revenue as against #153.98 billion in 1993. The revenue projection is based on the assumption of crude oil export price of \$14.00 per barrel at a production rate of 1.865 million barrels per day. The bulk of non-oil revenue is expected from customs duties and taxation.

The questions that need to be answered are. Will the price of \$14.00 per barrel be realised given global oil outlook? What would happen if Iraq eventually starts full production? Any negative change in any of these two variables will make the revenue projection unattainable.

The revenue projection is also heavily dependent on customs duties. However, unless the customs service is completely overhauled to ensure that all leakages are plugged, the expected revenue might not be achieved. Furthermore, the cancellation of bills for collection and open account might lead to a reduction of imports through official channels and an increase in smuggling

activities. This might also put pressure on the revenue estimate. MVAT, although has taken off, might not yield as much revenue as expected unless necessary infrastructures are put in place for proper take off.

Exchange Rate Management

On the foreign exchange issue, it is important to note that although the exchange rate of the Naira is important, of more importance to the economy is its stability and this the budget tried to achieve by fiat. What was needed was a policy to shore up the supply of foreign exchange. But since foreign exchange supply is relatively inelastic and this could not be done overnight, we could have fine-tuned the existing policy by restraining demand by means of monetary and fiscal measures and also take steps to protect the Naira against unrestrained pressure from speculative demand.

This would have required acting on both the demand and supply side simultaneously. On the demand side, a tight monetary policy to mop up excess liquidity from the system via such instruments as cash reserve and liquidity ratio requirements supported by Open Market Operations (OMO) could have been used. In addition there should have been a concerted effort to minimise fiscal deficit through aggressive revenue mobilisation and fiscal restraint. This could be achieved by further reducing the subsidy on petroleum products, the subsidy on fertiliser, and ensuring that all custom duties due to government are duly collected. This would have been further reinforced by cutting off all expenditure on unviable projects.

The budget pegged the exchange rate of the Naira to #22 to US\$1, restrained the use of export proceed and eliminated the autonomous market – a significant supply source. It is very doubtful that the estimated inflows of foreign exchange from non-oil transactions will materialise. This is so because at #22 to US\$1 export of agricultural commodities especially and most

manufactures will be unprofitable and hence will drastically be reduced.

On the supply side – removal of all bottlenecks to foreign exchange inflows. For example, it has been said that the 1962 Exchange Control Act is a major constraint on portfolio investment.

Again encouraging exporters and other Nigerians with large offshore funds to repatriate them at market determined rates would have increased the supply of foreign exchange. Finally, the bidding modalities could have been modified to avoid the need for banks to tie up huge sums of money at the CBN. This could work given the heroic assumption that there would be strict fiscal responsibility, transparency and accountability.

The implementation of the policy on Foreign exchange management as contained in the 1994 budget is not sustainable because the effects of the policy is too far reaching. With little or no reserves the country can not defend the exchange rate at #22/\$1 unless the CBN introduces a large measure of flexibility and imagination. Failure to do this will lead to worsened macro-economic instability.

Interest Rate Management

Again on the pegging of interest rates one foresees serious problem. Much as a low interest policy is laudable, the efficacy of the policy instrument – direct control of interest – is questionable and might lead to unintended results. Lending rate at 21% p.a. all inclusive and maximum deposit rate of 15% are unrealistic. With these rates coupled with the foreign exchange rate fixed at #22/\$1 government hopes that investment in productive sector will increase and price of commodities and manufactures will fall. An inflation rate of 15% was therefore anticipated. To crash inflation from 100% to 15% p.a. would seem a very herculean task.

This policy has been tried before and abandoned because it failed. As it is, the policy could lead to reduced bank deposit, reduced credit to the productive sector, and consequently will not lead to the expansion of production as envisaged. In fact, it could lead to misallocation of resources. There is ample evidence worldwide that interest rate control leads to reduced financial intermediation – a reduction in the rate at which savings are channelled through formal financial institutions to investors. Credit simply dries up for the private sector.

Conclusion

In concluding, it must be emphasized that the 1994 budget is not a total disaster despite its derailment of market forces for the following reasons:

Firstly, the discipline intentioned in the budget is quite commendable. So also is the scaling down of major projects where viability is suspect and which hitherto had been drain pipes to public funds e.g. Ajaokuta Steel Company.

Secondly, dedicated accounts* have been brought into the main budget and according to the budget, projects have to be implemented in accordance with their priority rating along other competing projects. Again, NNPC related activities have been demystified, thus for the first time bringing transparency into the main source of our national revenue. In fact, if the level of discipline implied by this budget is achieved a lot would have been achieved.

Despite this, it is very difficult to find economic justification for the pegging of the exchange and interest rates. This decision is like taking us back to command and control economy which we discarded eight years ago. Price control measures would hinder desirable adjustments in the macro economy. Market forces may be imperfect but direct administrative controls are even more

imperfect. Direct controls will lead to more corruption distortion and misallocation of resources.

The question now is: Where do we go from here? Given that government acted in good faith how do we minimise the unintended effects of the administrative measures of the 1994 budget?

In the implementation of this budget CBN has been given huge responsibilities on the foreign exchange management and control of interest rate. It is not certain how much flexibility and initiative the government will allow the Central Bank in executing these duties.

In the absence of the monetary policy circular the following questions beg for answer:

- Would the Central Bank allow non-oil export proceeds and private funds to flow in through the commercial and Merchant Banks at competitive rates since it is certain that failure to do this could jeopardise agricultural concerns especially cocoa and rubber exports? It will also impinge seriously on the ability and willingness of the oil companies to invest. The outcome of reduced investment in the oil sector may not now be apparent but in two to three years time the negative impact will manifest.
- Would the Central Bank be allowed to modify the Interest rate regime in view of its negative effect on financial intermediation with its consequent negative impact on capacity utilisation?
- Would it be possible for the Central Bank to rescind its stand on Bills for Collection and Open Accounts since its abolition would increase the pressure on working capital requirements by the productive sector and at the same time diminish the revenue from custom duties?
- Again assuming, and there is no reason not to assume, that it acted in good faith will the government be willing to

change these policies if it can be demonstrated that they are detrimental to the productive sector whose interests government had in mind in introducing these policies?

Original text was presented as at Arthur Anderson's Budget Seminar on January 27, 1994.

Chapter 15

The Business and Legal Implications of The Nigerian 1995 Budget

Introduction

The 1995 Budget was set against the background of policy reversals that characterised the 1994 Budget. Indeed, the 1994 Budget was a great disaster as it attempted to throw away the gains of eight years of economic deregulation by returning the nation to the era of regulation and stagnation. As a result of the inward- looking policies implemented during the year, real GDP growth fell from 2.3% in 1993 to 1.3% in 1994. Agriculture managed to grow at 1.6% against 3.5% in the previous year and in contrast to its estimated growth of 3.3%.

Since the 1994 Budget failed to achieve most of its set objectives, its regulation stance was abandoned for “guided” deregulation in 1995 Budget. Consequently, the 1995 Budget introduced reforms that have brought sanity into our economic system and placed the economy once again on the path of some recovery.

Thrust of Budget '95

In the 1995 Budget, Government re-affirmed the positive attributes of free enterprise and undertook to encourage its development for the mutual benefit of the Nigerian State and investors. Consequently, it not only reversed much of the restrictive policies of the 1994 Budget but also further opened the economy for greater local and foreign private sector

participation. The major policy initiatives of the Budget included the following:

Adoption of guided deregulation policy regarding interest rate and foreign exchange market;

Abrogation of the Exchange Control Act 1962 and the Nigerian Enterprises Promotion Act, 1989 to open up the Nigerian economy to free flow of foreign investments;

Intensive revenue generation drive involving set quantitative targets to be achieved by Government, including foreign currency flow through the private sector.

In the pursuit of fiscal transparency and in order to capture all oil receipts in the Federation Account, the operation of dedicated accounts was abandoned;

Greater fiscal discipline through substantial reduction in fiscal deficit and drastic curtailment of extra-budgetary spending;

Tight monetary policy through the continued application of Open Market Operation (OMO) instruments complemented by the issuance of new stabilisation securities as well as rolling over of maturing securities.

Through a number of measures, including substantive reduction of import duties, the Budget also aimed at expanding the economy's productive base.

Re-affirmation of commitment to privatisation and commercialisation programme under which contract leasing was introduced for enterprises considered not viable for outright privatisation. This is being done as a demonstration of government commitment to disengage itself from activities that are normally reserved for and best performed by the private sector. By so doing, Government will concentrate all its resources for the governance of the country and ensure all-round social development. It is widely

believed that contract leasing will be a prelude to eventual privatisation of the affected enterprises.

The new leasing arrangement involves all wholly government owned sugar companies, steel mills, paper and newsprint manufacturing companies, refineries, petrochemicals, fertiliser companies, and Nigeria Airways, and bids are open to both local and foreign businessmen. On their part, the lessees were expected to pay Government an agreed percentage of their profits and foreign exchange earnings in addition to being responsible for the maintenance of the enterprises.

Assessment of the 1995 Budget

The economy showed some signs of recovery in 1995 because there was some level of macro-economic stability. This tends to stabilise the Naira exchange rate and reduced the premium at the curb market to about 5% throughout the whole year. Another contributory factor to the stability is the willingness of Nigerians to save in Naira given the stable exchange rate.

Activities at the interbank funds market also picked up following the need by authorised dealers to provide 100% Naira backing for their foreign exchange demand at the Autonomous Foreign Exchange Market (AFEM). With the scrapping of the former allocation system, every company, individual or organisation now sources its foreign exchange requirement from the autonomous market.

In line with the policy of building up reserves and thereby restoring confidence in the Naira and the entire economy, the nation's external reserve rose from \$915 million at the end of December 1994 to \$1538.2 million in June 1995, compared to \$1221 million at the end of June 1994.

The policy of guided deregulation adopted in the 1995 Budget rekindled interest in the Debt Conversion Programme.

Consequently, a total of 29 applications for debt conversion worth \$296.8 million were received during the first half of 1995, compared with only 4 applications valued at \$19.5 million in the corresponding period in 1994. External debt redeemed during the first half of 1995 was \$19.1 million against \$6.2 million in the same period in 1994. Debt valued at \$832.5 million had so far been redeemed since the inception of the Debt Conversion Programme in 1988.

Enhanced revenue flow helped tremendously in addressing joint venture cash call problems, thereby positioning upstream companies to rebuild their reserves and productive capacity which are vital to protecting future oil revenue.

The generalised distress in the banking sector was boldly addressed through take-overs by appropriate regulatory authorities and the scrupulous implementation of the provisions of the Failed Banks Decrees.

The repeal of Exchange Control Act 1962 and the Nigeria Enterprises Promotion Decree 1989 abolished all exchange controls in our system and freed up ownership, thus eliminating all restrictions to foreign investment flows. This singular act coupled with relative stability in the macro economy made our investment climate more attractive.

1995 was another good year for investors in the Nigerian stock market. The market witnessed impressive growth in turnover, market capitalisation and index. The turnover in the market rose dramatically by 86.5% from #986 million in 1994 to #1.839 billion in 1995. Following this upward trend, The Nigerian Stock Exchange All-Share Index rose by 130% from 2205 at the end of 1994 to 5092 at the end of 1995. The IFC Global Index for Nigeria measured in dollar terms recovered in the second quarter of 1995 after the devaluation of the Naira by 75% against the dollar in the first quarter. The Index grew by 52% during the second quarter

and this trend was maintained in the third quarter as it recorded a growth of 42.5%, the highest among the IFC constituents during the period. The contributory factors to the growth of the Index included favourable earning results by listed companies and entry of foreign portfolio investors into the Nigerian stock market.

It is apparent from the foregoing assessment that the necessary deflation of the overheated economy has been largely achieved and the economy is now on the path to recovery. Consequently, most private sector executives in Nigeria fully supported the 1995 Budget.

Business and Legal Implications of the 1995 Budget

The 1995 Budget positively changed the investment environment in Nigeria for both Nigerians and foreigners. The major policy reforms leading to this change were the annulment of the Nigerian Enterprises Promotion Decree of 1989 and the Exchange Control Act of 1962 and their respective replacement by the Nigerian Investment Promotion Commission Decree 16 of 1995 and the Foreign Exchange (Monitoring and Miscellaneous Provisions) Decree 17 of 1995. The business and legal implications of the reforms are examined below:

The Nigerian Investment Promotion Commission Decree

In order to improve the investment climate and thereby promote free-flow of investment and investable funds into the country, government repealed the Nigerian Enterprises Promotion Decree of 1989 (indigenisation Decree). Other laws and regulations (including the IDCC Decree) hindering the free-flow of investment and funds into Nigeria were also abrogated in 1995.

It will be recalled that the annulled Indigenisation Decree 1989 amended the 1977 Indigenisation Decree. With the amendment, there existed only one list of scheduled enterprises exclusively reserved for Nigerians for the purpose of 100% equity ownership.

All other businesses not contained in the list of scheduled business were open for 100% Nigerian or foreign participation, except in Banking, Insurance, Petroleum Prospecting and Mining where the existing arrangements still subsist. Both Nigerians and foreigners were free to negotiate levels of equity participation in the unscheduled enterprises.

Foreigners were also free to participate even in the scheduled businesses provided such participation involved equity capital not below twenty million Naira (#20,000,000) and prior approval was obtained from the Industrial Development Co-ordination Committee (IDCC).

The objective of allowing for this special dispensation was to encourage large-scale production/operation in some scheduled businesses not only for the local market but for export. It must be emphasised for the avoidance of doubt that the new ownership structure applied to new investments only. This implies that the ownership structure in respect of existing enterprises as provided for in the 1977 Decree was not affected.

The Industrial Development Co-ordination Committee (IDCC) was the implementation arm of the 1989 Decree. Since the annulled Decree came with a new industrial policy designed to usher in a new economic order, it was able to attract new companies with 100% foreign ownership into the country. Notable among the companies are BP/Statoil in petroleum prospecting, Coca-Cola International in the manufacturing of concentrates, Nestle Nigeria Limited for the production and export of hydrolysed plant protein (HPP), Glaxo Nig. Limited for the production of Ethical Medicines, Unilever Nigeria Limited, Procter & Gamble and Colgate-Palmolive for personal products and Rothmans.

The Nigerian Investment Promotion Commission Decree No. 16 of 1995 called the Investment Decree was promulgated in July 1995 to replace the repealed Indigenisation Decree of December of 1989. Unlike the scrapped Indigenisation Decree, the new

Investment Decree has opened up a new era whereby foreign investors are free to own up to 100% of enterprises in virtually all sectors of the economy with the exception of petroleum production and production of items in the negative list; i.e., arms and ammunition, military apparels and dealing in narcotic drugs.

The Investment Decree establishes the Nigerian Investment Promotion Commission, the agency mandated to encourage, promote and coordinate investment into the country. The Commission shall assist any foreign entrepreneur or businessmen who wishes to invest in Nigeria to obtain within 14 days expatriate quota, business permit, etc and to avoid bureaucratic bottlenecks. As the implementation arm of the new Investment Decree, the Commission replaces the old IDCC under the annulled 1989 Indigenisation Decree. Its membership will be made up of about 50 percent private sector, unlike IDCC which was 100 percent public sector.

The Investment Decree provides for the purchase of existing companies by foreigners and it guarantees unconditional repatriation of earnings and principal through any authorised dealer bank. The new Investment Decree also contains guarantees protecting investors against arbitrary nationalisation by any government of the Federation.

In essence, the Nigerian Investment Promotion Commission Decree of 1995 is a departure from the era of indigenisation that was started in 1972 and was vigorously pursued until 1989, when some of the previous conditions were relaxed. The new Decree has therefore put the country in line with the rest of the modern economies by giving foreign investors the opportunities to have ownership control and management of companies in which they invest. Amongst others, Nigeria International Bank Limited has taken advantage of this Decree to recapitalise into 75 per cent subsidiary, from 40 percent affiliate of Citibank, NA.

The Foreign Exchange (Monitoring & Miscellaneous Provision) Decree

Foreign Exchange (Monitoring & Miscellaneous Provisions) Decree No. 17 of 1995 called the Foreign Exchange Decree establishes an Autonomous Foreign Exchange Market (AFEM) where transactions in foreign exchange shall be conducted in any convertible foreign currency. As the new Decree replaces the repealed Exchange Control Act of 1962, all exchange controls have been abolished as the new law allows foreign investors free movement of funds in and out of the country. It also allows them to deal in the whole spectrum of financial instruments spanning the money and capital markets while protecting their foreign currency funds from arbitrary seizure.

The Foreign Exchange Decree therefore reinforces and gives effect to the provision of the Investment Decree by outlining the mechanism which investors will use to bring in their foreign currency to make investment in Nigeria and the process of repatriating income and principal in respect of such investments.

Major Implications of the New Investment Decrees

With the annulment of the Nigerian Enterprises Promotion Decree 1989 and Exchange Control act 1962 the current Administration has taken the first crucial steps towards Nigeria joining the global economy.

The promulgation of Decrees 16 and 17 of 1995 has rightly accorded both Nigerians and foreigners the same rights, privileges and opportunities for investment in securities in the Nigerian capital market as the existing legal constraints to investment capital inflow into Nigeria have been removed.

As a result of the repeal of the Exchange Control Act of 1962, any foreigner may now invest in Nigeria without reference to the Ministry of Finance for “Approval Status”, or “Approval-in-

Principle”. Also payment in respect of foreign loan servicing, remittance of proceeds and other application in the event of sale or liquidation of enterprise are remittable without reference to the Ministry of Finance. The bank through which the remittances are to be made are to ensure, however, that all the taxes have been deducted and paid and the amounts being repatriated are in respect of funds imported into Nigeria.

All foreign exchange movement in respect of foreign direct or portfolio investment are to be executed through telegraphic transfer, cheques or other negotiable instruments. No cash transaction will be entertained. The measure is aimed at reducing or eliminating money laundering in our system.

With the abrogation of the Indigenisation Decree, Exchange Control and other related legislation which are a binding constraint on foreign investment in Nigeria, it is well known that a good number of manufacturing companies in Nigeria operate with ageing equipment. There is therefore a dire need to invest and modernize if they are to continue to survive. Here is a chance for foreign companies to begin re-investing by increasing their equity holding in these companies in which they presently hold minority stakes. With voting control, they should feel more comfortable with bringing in new money, all other things being equal. It also follows that the new money will be used to expand the companies’ operations and create more employment for Nigerians. Foreigners can also invest in blue chip Nigerian companies whose shares could be quoted on a stock exchange in Europe or America and or via Depository Receipts -ADR’s/GDR’s.

Under the new Investment Decrees, institutional investors in Nigeria, fund managers as well as high networth Nigerians will have greater latitude to protect their investment portfolio through some doses of foreign currency investment. Apart from enabling them to hedge against currency depreciation, such geographical diversification of their portfolio will also reduce their investment risks.

Foreign financial market operators such as banks, stockbrokers and fund managers wishing to establish business in Nigeria are free to do so either with 100% ownership or in collaboration with their counterparts in Nigeria. In the case of capital market, the local stockbrokers can expand their businesses and thus attract additional foreign exchange into the country by getting their foreign counterparts and fund managers interested in buying Nigerian securities.

Pending the take off of the Nigerian Investment Promotion Commission, any foreign entrepreneur wishing to establish business in Nigeria is expected to register such business with the Corporate Affairs Commission. In case of securities business, especially stockbroking, foreign market operators are required to register with Nigeria's Securities and Exchange Commission (SEC) and must be licensed by The Nigerian Stock Exchange.

The deregulation of the Nigerian capital market which started with the deregulation of dividend policy in 1988 gathered momentum in 1993 with the transfer of pricing and allotment of Initial Public Offers (IPOS) from SEC to market operators - Issuing Houses. This development, together with the scrapping of Exchange Control of 1962 and Indigenisation Decree of 1989 have fully internationalised the operations of Nigerian securities market. Consequently investors from Europe, USA and South Africa as well as foreigners residing in Nigeria invested a sum of \$1,137 million in our emerging market from July 1995 (when the new Investment Laws were enacted) to December 1995. This is a measure of confidence in our market and it is estimated that foreign portfolio investment in 1996 will rise as more light is shed on Nigeria's investment code.

As stated earlier in the paper, local businessmen supported the 1995 Budget because of its forward - looking policies. As a mark of their confidence in the economy, there was a flurry of rights issues and offers for subscription during the year. Consequently,

31 new issues worth N7.1 billion were approved for quotation by the Council of The Nigerian Stock Exchange in 1995 in contrast with 21 new issues valued at N2.7 billion achieved in 1994. The 1995 figure was the highest in the history of The Exchange.

The decision of Nigerian Government to enter into bilateral investment protection agreements as contained in the 1995 Budget is another proof of its sincerity of safeguarding investment of foreigners in Nigeria. This is in addition to the guarantees expressed in the new Investment Decrees.

Conclusion

It is apparent from the foregoing discussion that the 1995 Budget introduced sound economic policies. No doubt, the 1996 Budget will build on these policies, especially the stringent fiscal and monetary policies which successfully deflated the economy during the year. There are assurances that all the policies that stabilised the exchange will be maintained in 1996.

Efforts will be made to ensure that the Nigerian Investment Code will be issued for proper guidance of foreign investors already in Nigeria and the prospective ones wishing to invest in the country. The Code will complement Guidelines already issued by SEC and The Nigerian Stock Exchange.

Work on The Nigerian Stock Exchange Central Securities Settlement and Clearing System has reached advanced stage. Our settlement is aimed at T+3 in line with G30 recommendations.

On the whole, all possible efforts to improve Nigeria's investment climate are being made because of the conviction that high levels of efficient investment and increased integration into the global economy are two vital prerequisites for an improved growth performance by the Nigerian economy during the 1990s and beyond.

The Nigerian stock exchange

Performance of the Nigerian stock market in 1995

The year witnessed yet another upward trend in the performance of the Nigerian stock market. There was an impressive growth in market turnover, market capitalisation and stock market index.

Market Turnover

The total value of trading transactions on the six floors of The Exchange rose dramatically by 86.5% from N986 million in 1994 to N1.839 billion in 1995. On a daily basis, turnover was N7.4 million in 1995 as against N3.9 million per day in 1994. However, in terms of volume, turnover declined by 24% from 524 million shares in 1994 to 397 million in 1995.

The analysis of the market turnover shows that the bulk of trading (97%) was in equities as Industrial loans sector accounted for only 3% while the Federal Government Stock sector was dormant throughout the year. The lowest monthly turnover of N43 million was recorded in January while the highest turnover of N400 million was achieved in November 1995. The impressive growth of turnover in 1995 was partly influenced by the entry of foreigners in the market.

Foreign Investment on the Nigerian Stock Market

Following the repeal of the Nigerian Enterprises Promotion Decree 1989 and the Exchange Control Act of 1962 and their replacement by the Nigerian Investment Promotion Decree No. 16 of 1995 and the Foreign Exchange (Monitoring and Miscellaneous Provisions) Decree No. 17 of 1995, the operations of The Nigerian Stock Exchange became fully internationalised. Consequently, foreign portfolio investors commenced investing in Nigerian stock market. From July 1995 to December 1995, foreign investment would have been higher but for the diplomatic row that engulfed the nation towards the end of the year. The investors came from

USA, Europe and South Africa and a sizeable proportion are foreigners working in Nigeria. This is a measure of confidence in our market and it is estimated that foreign portfolio investment in 1996 will rise as more light is shed on Nigeria's investment code.

Market Capitalisation

Price movements and listing activities influence market capitalisation. Shares issued, new listed companies and further issues of equity by already listed companies in form of rights issues, bonus issues and offers for subscription add to market capitalisation. Share prices of many listed companies recorded substantial gains in 1995 (see Table 15.1). Owing to these and other factors, market capitalisation rose from N65.5 billion at the end of 1994 to N171.1 billion at the end of 1995, showing an increase of N105.6 billion or 161.2%.

TABLE 15.1: Twenty Most Capitalized Stocks (December, 1995)

S/No	Stock	Market Capitalisation (N)
1.	Nigerian Breweries Plc.	18.2bn
2.	Lever Brothers Nigeria Plc	17.5bn
3.	Guinness Nigeria Plc.	7.0bn
4.	Nigerian Bottling Company Plc	6.5bn
5.	Total Nigeria Plc.	5.7bn
6.	West African Portland Cement Plc.	5.6bn
7.	First Bank of Nigeria Plc.	5.1bn
8.	John Holt Plc.	5.0bn
9.	UACN Plc.	4.9bn
10.	Union Bank Nigeria Plc.	4.7bn
11.	Dunlop Nigeria Plc.	4.6bn
12.	Cadbury Nigeria Plc	4.5bn
13.	UBA Plc.	4.4bn
14.	Mobil Oil Nigeria Plc.	4.0bn
15.	Afribank Nigeria Plc.	3.7bn
16.	Ashaka Cement Plc.	3.6bn
17.	National Oil Company Plc.	3.5bn
18.	PZ Industries Plc.	3.3bn
19.	Nigerian Tobacco Company Plc.	3.2bn
20.	Nestle Foods Nigeria Plc.	3.1bn
	Total	118.1bn

Index Movement

The Nigerian Stock Exchange All-Shares Index rose by 130% from 2205.0 at the end of 1994 to 5092.15 at the end of 1995. This increase of 130% was greater than the 42.8% growth of the Index achieved in 1994.

The IFC Global Index for Nigeria measured in dollar terms recovered in the second quarter of 1995 after the devaluation of the Naira by 75% against the dollar in the first quarter. The Index grew by 52% during the second quarter and this trend was maintained in the third quarter as it recorded a growth of 42.2%, the highest among the IFC constituents during the period.

A number of factors was attributed to the impressive growth of the Index namely:

- Favourable earnings results by listed companies.
- Introduction of a new price movement limit.
- Entry of foreign portfolio investors.

New Issues

The new issues market was rather active in 1995. A total of thirty one (31) new issues worth N7.1 billion were approved compared to twenty-one (21) worth N2.7 billion in 1994.

Listing

During the year the six (6) securities in the Equities sector and four (4) in the Industrial Loans sector were listed on the Daily Official List. The details are stated below:

Listed Equities are:

- (i) Nigerian Wire and Cable Plc.
- (ii) International Breweries Plc.
- (iii) Academy Press Plc.

- (iv) Asaba Textile Mills Plc.
- (v) Premier Paints Plc.
- (vi) Towergate Insurance Plc.

Listed Debenture Stocks are:

- (i) Academy Press Plc 21.00% N10 million Floating Rate Redeemable Secured Debenture Stock 1997/1999.
- (ii) Guinea Insurance Plc 28.00% N30 million Floating Rate Redeemable Mortgage Debenture Stock 12994/1998.
- (iii) CFAO (Nigeria) Plc 21.00% N150 million Floating Rate Unsecured Redeemable Loan Stock 2000/2004.
- (iv) African Paints (Nigeria) Plc 20.00% N20 million Floating Rate Redeemable Secured Debenture Stock 1997/2000.

Delisting

In the Equities sector, two companies, Berec International Plc and Berec Nigeria Plc were delisted at the instance of the management owing to withdrawal of patents by their overseas partners.

On the other hand, the eight (8) underlisted loans were delisted on maturity:

- (i) K. Chellarams 17.00% N75 million Floating Rate Redeemable Mortgage Debenture Stock 1991/1998.
- (ii) NICON 13.00% N30 million Secured Redeemable Debenture Stock 1989/1994.
- (iii) 7-Up Bottling Company Plc 18.00% N30 million Redeemable Mortgage Debenture Stock 1992/1994.
- (iv) Golden Guinea Plc 9.5% N25 million First Mortgage Debenture Stock 1985/1994.
- (v) Lever Brothers Nigeria Plc 10.50% N20 million Redeemable Debenture Stock 1994.
- (vi) UAC of Nigeria Plc 9.25% N25 million Unsecured

- Redeemable Debenture Stock 1994.
- (vii) UAC of Nigeria Plc 11.50% N25 million Unsecured Redeemable Debenture Stock 1994.
- (viii) Federal Government stock 6.00% FRN 7th Debenture Stock 1994.

Total Number of Listed Securities stood at 276 at the end of December 1995 (see Table 15.2). The composition is as listed below:

Federal Government Stocks	28
State Government Bonds	5
Local Government Bond	1
Corporate Bonds (Debentures)	61
Equities	181
	<u>276</u>

TABLE 15.2: Highlights of 1995 Performance of the Nigerian Stock Market

	1994	1995	CHANGE
1. Number of listed securities	276	276	—
2. Number of Quoted Companies	177	181	2.3
3. Total market capitalization	N65.5bn	N171.1bn	161.2
4. Volume of shares traded	524m	397m	-24.2
5. Daily Average volume of shares	2.1m	1.6m	-23.8
6. Value of shares trade	986m	1839m	86.5
7. Daily Average value of shares	N3.9m	N7.4m	89.7
8. Price Earning Ratio (Per)	5.5	9.2	67.3
9. Value of New Issues	N2.7bn	N7.1bn	163.0
10. NSE All-Shares Index (year-end Figures January 3, 1994 = 100)	2205.0	5092.15	130.9
11. Number of Stockbroking firms	140	162	15.7

Membership

The number of members of the Exchange was 310 as at December 31, 1995. This was made up of 162 Dealing Members and 148 Ordinary Members.

Chapter 16

Growth and Development Potentials of the 1997 Federal Budget

The Role of the Budget in National Development

The preparation of each annual budget affords countries the opportunity to reflect soberly, and also to focus and redirect national efforts and resources to achieve greater levels of development.

The 1997 budget was tagged a ***“Budget of Economic Growth and Development”*** – two very desirable phenomena especially in Nigeria’s present state of socio-political instability and mass poverty. Because of the difficulty in prescribing a generally acceptable definition of development, an attempt is here made to state what development is not as a guide to understanding the concept.

What is National Development?

National development is not economic development per se even though the term economic development has been widened nor is it socio-political development which is a mere component of the whole.

National development is a generic term that encompasses, at the very least, social, political, industrial and economic development. I believe, this is what is intended in the tag given to the 1997

budget. Development is a generic concept meant to designate progress in all spheres of human endeavour.

Accordingly, therefore, development must include growth which is basically a quantitative change in certain economic, social and political variables.

It is also important to note that growth can be generated without development. In particular, a contemporary aspect of the definitional question of development is that development must find answers to the questions of poverty, unemployment and inequality to merit such a description. Any development that fails to substantially reduce these indices in a fairly stable time period is merely a passing phase – a non- developmental phase.

Growth and Domestic Environment

The domestic environment in Nigeria has recorded substantial progress over the situation in the first half of the '90s. Evidently, some definite cognitions have emerged, including:

- a clear understanding of the fact that no government can single-handedly carry the problems of its entire citizenry;
- no meaningful progress can be achieved in an atmosphere of political and social instability;
- policy continuity and stability have a lot more to offer in contradistinction to unwarranted policy swings;
- a firm acknowledgement of the fact that the domestic environment is key to Nigeria's attainment in the world system and must be put "right"; and
- there will be little economic development without the establishment of a virile and vibrant private sector working in tandem with the public sector.

The original concept for this harmonious working together of the public and private sectors in Nigeria was Nigeria Incorporated an idea like, Vision 2010, whose time is here indeed.

It is fitting here to acknowledge the great success recorded in the stabilisation of the exchange rate thereby enhancing planning in all user-sectors. The rationalisation of port activities and the return to orderliness in the interest rate regime are also very commendable. In spite of all these achievements, Nigeria is still currently plagued by:

- unemployment.
- poor transportation system.
- high crime rate.
- declining educational system.
- poor health facilities.
- a sick financial system, the very structure of which ensures the exclusion of the bulk of the citizens from participation.
- grossly inefficiently and poorly managed parastatals evidences of concentration and control even when decentralisation, decontrol, deregulation and simplification have proved indispensable.
- weak demand occasioned by an eroded purchasing power.

Purchasing Power and Excess Capacity

In a system where social and economic dualism abound, government must resolutely pursue people-oriented programmes if it is to generate the requisite national consciousness that should combine with the emergent political – social stability to launch the nation ahead. The current low level of purchasing power arising from highly depleted disposable income is not conducive for sustainable growth.

Industrial capacity utilisation recorded a marginal growth of 11 per cent over 1995, to stand at 32.5 per cent in 1996. The low level of capacity utilisation calls for a closer look at both the development and growth strategies on the one hand and the pricing policies of industries on the other. At 32.5 per cent capacity

utilisation, Nigerian manufacturers are known to be heavily laden with inventory. Given the extent of industrialisation and the population of the country, it is evident that the huge inventory is a result of lack of effective demand. If growth and development are to be achieved in 1997 as specified in the budget, by “private sector led investments” something ought to be done about the huge inventories carried by manufacturers. Manufacturers may also need to be assisted in deciding how regularly they change their prices. There is evidence of abuse.

Undoubtedly, inventory must decline for production to proceed. This has direct implications for the objectives of job creation, social mobilisation and overall development. For the avoidance of doubt, it is to be stressed that the rate of development of the manufacturing sector in any given period will generally not only determine the economy's growth rate for the period but also for subsequent periods.

The awkward but interesting situation in the manufacturing sector today is such that it is possible for substantial growth to be achieved without any new investments in the sector. All that may be necessary is to find use for the existing “excess capacity”. This has negative implications for the objective of enhancing private sector participation in the economy and overall growth.

Development and People-Specific Programmes

Resolute action to address the burning issue of mass unemployment remains outstanding and demands urgent and concerted effort. It can hardly be overemphasized that unemployment is a major source of resource waste, a living tribute to social injustice and a mark of incivility. A just and egalitarian society must continually confront unemployment with a view to obliterating it.

The Family Economic Advancement Programme (FEAP) of the 1997 budget is an indication of government's concern for the

welfare of its citizens. It deserves commendation. However, care must be taken to avoid a repeat of the errors of the past. Besides, there is also the need to avoid any duplication of roles. In particular, government should ensure that such laudable programmes as the National Agricultural Land Development Authority (NALDA) are working according to the original Malaysian concept upon which it was founded. Indeed, efforts should be made to move away from the tradition of foisting government programmes on the private sector. The creation of a level playing field complete with requisite infrastructure and support is all that is required for the latent potentials of the hardworking Nigerians to be released. Any programme that creates avenues for individual rent-seekers to thrive has minimal positive effect on the people as experience has shown.

Effective people-specific programmes will help address the problems of unemployment and low purchasing power, among other evident ills. This could include actions in the following areas:

- direct labour public work at federal, state and local government levels. The “Operation Repair 100 Roads” of the Lagos State government and its impact on both the roads and “unemployed youths” is a case in point. This should be extended to other activities such as garbage collection, street sweeping, etc., under effective and committed supervision.
- special schemes targeted at the informal sector that enhance access to credit, land and infrastructure.
- elimination of hostile, baseless and punitive taxes and levies especially by state and local governments which discourage small private entrepreneurs. State and local governments should be encouraged to seek their enhanced resources through the capital market by the issuance of bonds (state or municipal).

The Informal Sector

The informal sector of the economy is still the dominant component of the Nigerian economy, despite its handicaps. This sector comprises the workers, traders, artisans, peasants, rural dwellers and such, who exist in both the rural and urban areas. It harbours the most endowed and energetic Nigerians. Major handicaps of this sector are:

- the members are mainly landless
- lack of infrastructures for their work
- contracts are hardly enforceable
- lack of legal framework for activities/operations
- lack of access to credit
- underserved by the financial system

Clearly, the financial superstructure imposed on the above substructure features mainly banks and insurance companies. Banks in this instance includes;

- Development
- Commercial
- Merchant
- Savings and Loans (Mortgage)
- Peoples
- Community;

While Insurance companies include

- Life
- Motor vehicle
- Marine
- General

It is only the community banks that are rural based. All others, including the Peoples Bank which was intended primarily for the

local people as in the typical Greinean tradition, are concentrated in the urban areas. Apart from this locational drawback, it is also clear that by their very nature, procedures and organisational structures, these financial institutions are unsuitable for the needs of the informal sector. The informal sector therefore bears squarely its own risks, generates its own funds and thus:

- has little or no access to credit facilities being unable to meet the requirements as prescribed by the “*alien*” financial superstructure;
- has little protection from the risks of business as its members are hardly aware of the procedure for cover;
- remains in perpetual liquidity crisis as almost all dealings are on cash basis; and
- bears higher cost of credit having to pay usurious rates.

In 1997, growth and development objectives of the budget would definitely profit from a resolute pursuit of the solutions to the problems identified above.

Prior to the escalation, in 1993, of the problems in the financial system, the problem of access to credit had been vigorously attacked through a combination of policies and instruments and institutions.

The Peoples and Community banks had begun to have positive impact on the lives of the rural people. The primary mortgage institutions were also beginning to contribute to the enhancement of the quantum of credit to the informal sector. But these efforts have been seriously eroded by the distress syndrome that hit the financial system. A new agenda has therefore become necessary. The agenda must be:

- to raise the quantum and ease the availability of credit to the informal sector;
- to revive or strengthen existing institutions or develop new ones; and

- to revive and re-energise the informal sector through robust policies, instruments and products.

As indicated earlier, government has, overtime, established certain basic requirements for a people-oriented development. It is however, necessary to ensure that we do not continually create good ideas without seeing to their full exploitation and implementation. It appears, therefore, grossly unfair for the private sector, mainly populated by the informal sector, to be described as “weak” when the requisite factor combinations for effectiveness are lacking.

A people-centred development can be attained through the instrumentality of:

- local agricultural programmes. In this regard, a critical review of the activities of NALDA to prevent it from falling into the problems of the erstwhile Farm-Settlements has become urgent.
- downsizing of government and the release of greater roles to the private sector. The Build, Operate and Transfer (BOT) scheme which, from all indications, government has adopted should be fully exploited in this regard.

The Petroleum Trust Fund (PTF) and Disposable Incomes

The contention that with the Petroleum Trust Fund (PTF) executing so many projects, resources will directly flow into coffers of individuals, thereby removing the low disposable income situation of the moment should not be stretched too far. It is important to understand the structure and composition of most PTF projects. Evidently, there would be a considerable trickling down effect but the fact that most of the contracts, especially in the construction area, go to the more reputable multinationals calls for caution in assuming that the ordinary Nigerians are in for a good time, except for the salutary effects of the projects in their lives.

Growth and development would definitely be slow if privatisation is slowed down as should be expected going by the letters of the budget. It is only when corporations are run efficiently and unnecessary monopolies broken that the vibrant energetic people of Nigeria can find real matches for their abundant energies. Sadly enough, despite all the efforts so far put into privatisation, only about 4% of total government assets has been privatised. There is need to ensure maximum benefits for all Nigerians from this exercise that the rest of the progressive world has done and profited from.

Conclusion

Nigeria must return to economic realism. This has been a lacking element in the country's national planning strategies. The era of charity economies is over and government appears to have realised this. However, the price to pay to extricate the country from this is downsizing, government decontrol and decentralisation all which have not so far been pursued with requisite vigour.

The private sector continues to be the source of considerable developmental initiative in most progressive societies. Nigeria must give the relevant opportunity for its private sector to thrive.

The country is currently experiencing low demand for manufactured goods and hence excess capacity and this is a definite drag on development. Efforts must be made to stimulate aggregate demand through specific people-oriented programmes without duplicating existing attempts. Authorities must therefore take stock of such initiatives and ensure performance by relevant agents.

Chapter 17

The 1998 Nigerian Budget: An Analysis of its Implication for the Economy and Business in Nigeria

Introduction

In the past, the business community relied mainly on the annual budget as the main tool for business plans and decisions for reason of its short-term. In fact, although the annual budget pronouncement is usually preceded by the announcement of the three – year rolling plan, no attention seems to be paid to the rolling plan on which the budget is predicated. This could be attributed to past inconsistencies in government policies and it would seem that despite the fact that the thrust of policies since 1995 has been consistent, the level of credibility is still very low. This in a way, may have conditioned the business community's perception of the budget in that, even if the budget contains laudable policies, the reaction one often gets is that of *“let's wait and see”*.

The above brief comment is necessary to enable us do justice to the 1998 budget which has quite a unique background. In this analysis we shall not dwell on the details of the budget as to the size, how much was voted for particular sectors, etc. Rather focus shall be on the critical issues that impinge on the economy. Thus, we shall dwell on the implications of the budget - what the opportunities are and what the perceived threats could be. We shall discuss first the background to the budget, this will be

followed by an appraisal of key policy implications and finally a brief discussion on the perceived threats to watch.

The Background

The background to the 1998 budget is two-fold; namely, the state of the economy prior to the budget and the process of its preparation.

The Economy prior to the Budget

The 1997 budget was formulated within the broad framework of macro-economic stability based on consistent economic policies and curtailment of budget deficits, which have been hallmarks of this government's economic thrust since 1995. Specific objectives of the budget as stated by the government include:-

- (i) Price and Exchange Rate Stability;
- (ii) Employment Generation;
- (iii) Balance of Payment Equilibrium; and
- (iv) Fiscal Transparency.

The result achieved in 1997 compared to the previous years are summarised in Table 17.1.

TABLE 17.1: Economic Performance (1995 - 1997)

	1995	1996	1997
Inflation Rate	72.8%	29%	8.5%
Gross Domestic Product (GDP) Growth Rate	2.2%	3.25%	3.77%
Surplus (Deficit)	N1.00b	N37.00b	N5.00b
External reserve	\$1.441b	\$4.086b	\$7.7b
Oil Revenue	\$7.9b	\$10.9b	\$12.00b
Non Oil Revenue	N81b	N108b	N123b
Interest Rate	21%	16%-21%	18%-21%
Recurrent Expenditure	N66b	N79b	N101b
Capital Expenditure	N44b	N51b	N105b
External Debt--(Collateralized)	\$2.04b	\$2.04b	\$2.04b
(Non collateralized)	\$30.6b	\$26b	\$25b
Total external debt	\$32.6b	\$28b	\$27b
Exchange Rate	Stable	Stable	Stable

Source: Arthur Anderson Newsletter: Vol. 98-1.

From the above picture, one could safely say that by the end of 1997, the Nigerian economy had achieved a considerable measure of macro-economic stability anchored on the policy of tight money and fiscal discipline. For the first time monetary and fiscal policies were in harmony. This resulted in fairly stable Naira exchange rate, relatively low interest rate and lower rate of inflation. Unfortunately, the macro-economic stability was achieved at the expense of economic growth and a major dent on the living standards of the populace. The challenge to the policy makers therefore was how to maintain the stability, revive the economy which was more or less in a state of comatose and achieve a non-inflationary growth.

The Process

Prior to the budget, the country had just completed a comprehensive exercise lasting twelve months touching on all

aspects of the nation's life. It had also introspected and completely analysed the economy and decided where the country would want to be by the year 2010. The government in accepting the report of Vision 2010 Committee decided that henceforth all plans and budgets will be anchored on and consistent with the recommendations of Vision 2010. Thus, the 1998 budget is the first act in the implementation of Vision 2010 and as such most of the policies and reforms contained in the budget are based on Vision 2010. The implication of this is that the 1998 budget is the first step in the country's march towards sustained economic development and growth in its quest to becoming a developed economy. Its early announcement was a signal that the Federal Government is very serious with Vision 2010 implementation apart from removing the tensions attendant to delayed budget announcements of the previous years.

One could therefore summarise the thought process of the formulators of 1998 Budget along the following lines:

The first step was economic stabilisation. Nigeria had achieved this. It was necessary but not sufficient for economic growth. Nigeria achieved stabilisation via:

- Reduction in Fiscal Deficit (*which evolved institutionally into a cash budget*)
- Reforming the banking system via the Failed Bank Decree of 1993 stabilisation brought the economy to the starting point for growth but growth policies were still needed. Policy reforms as well as incentives were needed i.e. those that can achieve growth without the injection of investment, for instance, removal of economic distortions and those incentives that attract investment. It was also acknowledged that for growth to be sustained there was need to lock in the reforms and for increased investment and this required

improved credibility.

To attract investment, it was necessary to:

- open the economy and make it competitive;
- lower the cost of doing business and improve our infrastructure, roads, electricity; telephone;
- credible national institutions.

1998 Budget Objectives

It is against the background of noticeable efficacy of the economic policy measures in 1995 - 1997 and the thought process mentioned above that the 1998 budget was formulated with the following as its main objectives:

- Price and exchange rate stability such that the rate of inflation will not exceed 9.0% in 1998;
- Employment generation, expanded production and sustained economic growth of at least 5.5%;
- Sustained fiscal discipline and transparency;
- Appropriate monetary and credit policy stance;
- Human capital development, as well as improvement of social and economic infrastructure;
- Improved revenue generation.

Thus, the stated objectives of the 1998 budget reflect in broad terms a continuation of the economic policy thrust which the government has pursued since 1995. In terms of policy continuity, this is quite commendable.

Though one could pick holes here and there, for instance: the retention of dual exchange rates, absence of explicit measures for boosting export earnings, continued funding of seemingly unviable projects, being long on promises and short on actions, or any issue anybody might care to pick on, the 1998 budget is a major step in

the right direction. It is favourable to manufacturing industry and to the ordinary man as it addresses some fundamental issues that affect the economy. More fundamentally, comprehensively implemented, it is a direct challenge to the private sector.

To achieve the above objectives, the government has outlined specific strategies on which the stated objectives are anchored.

1998 Budget Strategies

- (i) Competition, Economic Liberalisation and Productivity Enhancement.
- (ii) Guided Privatisation of State-owned Enterprises.
- (iii) Financial Sector Reforms.
- (iv) Reforms of the Nigerian Capital Market.
- (v) Oil and Gas Sector Strategy.
- (vi) Foreign Exchange Management.
- (vii) Stimulation of the Productive Sectors.
- (viii) Poverty Alleviation and Human Capital Development.

The rest of this section attempts to highlight the main elements of the strategies and their implications for the economy.

Competition and Economic Liberalisation

Highlights:

- All sectors of the economy are to be opened to private investment, including
 - telecommunications
 - electricity generation, distribution and transmission
 - petroleum refining, particularly for export
- Laws inhibiting competition in various sectors of Nigeria's economy are to be repealed and/or amended. Such laws include:

- Petroleum Act 1990
- Petroleum Control Act 1990
- Nigerian Coal Corporation Act 1990
- Nigerian Mining Corporation Act 1990
- Nigerian Steel, Raw Materials Explorations Decree 1992
- Electricity Generating Act 1990
- National Electric Power Authority Act 1990
- Nigerian Communications Commission Decree 1992
- Nigerian Investment Promotion Commission 1995
- Clause 3 (vii) of the Memorandum of Association of NITEL (Which confers telecommunication monopoly on NITEL).

Prompt implementation of these policy reviews is expected to create a positive, enabling investment climate to attract substantial private sector investment, including the much needed foreign investment and return of flight capital.

Privatisation and Commercialisation

In order to improve their performance, a number of inefficient and unprofitable State-owned enterprises (SOES) are to be privatised. Enterprises slated for privatisation in the first phase of the programme are in the following sub-sectors:

- telecommunications (NITEL)
- power/electricity (NEPA - after an initial reorganisation)
- petroleum refining
- petrochemicals
- coal and bitumen
- tourism development

Main features include:

- Guided privatisation implying a cautious approach to ensure that the exercise does not derail;
- At least 20% of the shares of candidate enterprises will be sold to Nigerians;
- Government to retain a maximum of 40% ownership of the SOES;
- Proceeds of privatisation to be held by the proposed Nigeria Trust Fund and utilised for further development of the economy; and
- Mechanics of implementation to be worked out by a National Committee on Privatisation and Commercialisation (NCPC) chaired by the Head of State.

For Optimal Results:

- Process to involve competitive and open international tenders,
- Placements of management control in the hands of technically competent, and
- Financially viable core investor,
- Open up the programme for the participation of foreign financial institutions -in the areas of: Underwriting the issues, marketing of the issues in the international market, etc.

Financial Sector Reforms

Highlights:

- Liquidation of 26 distressed banks that were not re-capitalised before the end of 1997.
- Transfer of CBN's Retail Banking functions to Commercial banks effective from the first quarter of 1998.
- Reform of the Capital market and creation of Abuja Stock

Exchange.

- Change in the investment structure of discount houses.
- Implementation of the Dishonoured Cheques (offences) Act No. 102 of 1990 to encourage use of cheques.
- Creation of a more open, more competitive financial sector and introduction of a universal banking system.
- Restructuring of existing development finance institution.

Implications:

- Enhancement of the overall health and stability of the financial system.
- Restoration of the credibility of and international respect for the financial system.
- Encouragement of the savings culture.
- CBN to focus on its core business of monetary policy/management and supervision.
- Renewed interest in/deepening of the Nigerian Capital Market.
- Reduction in the amount of cash outside the banking system.

Reforms of the Nigerian Capital Market

Reforms

- Designed to deepen, modernise and internationalise the Nigerian Capital Market include:
 - promulgation of law to put into proper legal framework, the required reforms to the market.
 - reorganisation and reconstitution of the Securities and Exchange Commission.
 - provision of new Capital Market infrastructure to facilitate the setting up of a Central Depository Corporation and Independent Clearing Corporation;

and the adoption of a screen-based trading system in lieu of the current call-over system.

- establishment of Abuja Stock Exchange, Nigerian Stock Exchange (NSE) changed to Lagos Stock Exchange (LSE) and Capital Trade points in designated locations in Nigeria.
- provision of a framework for the establishment of Options, futures and Commodities Exchange in Nigeria.
- development of a National Unit Trust Scheme to assist in funds mobilisation.
- establishment of an Investment Service Tribunal for the settlement of Capital market disputes.

Apart from the SEC, three self regulatory bodies are to be established to:

- manage and regulate exchanges and Capital Trade points;
- regulate corporate members of the Exchanges/Capital trade Points; and
- register Collective Investment Schemes such as Unit Trust, Pension Funds, etc.

Oil and Gas Sector Strategy

(i) Policy Initiatives/Investment Incentives

- US\$3.45bn (out of projected forex earning of US\$16.03bn) for the petroleum sector.
- US\$2.50bn allocated for seven joint venture projects, though 28% lower than the US\$3.5bn required by the Joint Ventures (J.V) partners, it is US\$450m higher than the 1997 allocation of US\$2.05bn.
- Oil majors to give up unprofitable marginal field that is, Oil fields in which Joint Venture Companies cannot achieve the agreed technical cost under the Memorandum of

Understanding (M.O.U.).

- Guided privatisation of petroleum refining and petrochemicals.
- Joint venture fabrication work to have at least 30% local content.
- (a) \$112 million allocated to two Port Harcourt refineries for Turn Around Maintenance (TAM);
- (b) \$118 million to NNPC for its priority projects – *Maintenance* of pipelines and Bukanizafion projects;
- (c) \$200 billion Kaduna for TAM carried over from 1997 Budget.
- Penalty for gas-flaring raised to N10.00 for 1000 standard cubic feet and significant incentives for investors in gas-related projects. Nigeria produces about 34 billion cubic meters of gas out of which 75% is flared. Apart from environmental degradation, this is a huge waste of resources.
- Petroleum refining and petrochemicals opened up for private sector participation.

(ii) Investment Incentives Specific to the Gas Sector to increase gas utilisation in the country

All gas development projects, including those engaged in power generation, fertilizer plants, gas transmission and distribution lines will benefit from the following incentives:

- Removal from Petroleum Profit Tax Act (PPTA) and Subjection to Companies Income Tax Act (CITA);
- Where oil and gas projects are integrated, oil operations shall be taxed under PPTA, while gas operations shall be taxed under CITA;
- Extension of tax holiday period from 3 to 5 years;
- Gas transfer at zero percent PPT and zero percent royalty.
- Increase in Investment Capital Allowance from 5% to 15%;
- Full deductibility of interest on loan for gas projects subject

to prior approval of the loan by Federal Ministry of Finance (FMOF); and

- Exemption of dividend paid during the tax holiday from tax.

(iii) Implications

- Improvement in exploration and development activities of the J. V. companies.
- Promotion of the development and utilisation of the country's gas resources.
- It is however imperative that the repeal of all laws inhibiting private investment in this and other critical sectors is handled expeditiously; as well as the enactment into law of the incentives promised investors in the gas sub-sector.

Foreign Exchange Policy

Highlights of foreign exchange management policy include:

- Retention of a modified dual foreign exchange rate system. FX transactions of government and their agencies to be conducted through AFEM. The official rate will only be used for Defence transactions, External obligations and Foreign missions;
- Total FX receipts for the year is projected at \$16,036m out of which the oil sector is expected to contribute \$9,833.0m, based on crude sales at \$17/b. The private sector is projected to account for \$4.9billion or 31% of total FX receipts;
- Total FX budget for AFEM is \$2.852 billion. 4.7% higher than \$2.722 billion budgeted for 1997;
- \$2.0 billion -12% of total foreign exchange earnings (lower than 1997 allocation of 14%) has been set aside for debt-servicing, while a total of \$9,786.0 million is set aside for

domestic use both for private and official uses.

Implications:

- In the 1997 Budget, government had promised to merge both rates, but this was not implemented.
- The new arrangement reduces the window for leakages, but as with all situations where the price of a scarce commodity is fixed below the equilibrium level, abuses cannot be ruled out. It is therefore hoped that the issue will be fully resolved as the year progresses since a gradual phasing out has commenced.
- With recent development in the international oil market it is now doubtful that revenue targets can be attained, without substantial improvement in non-oil sector receipts. Greater emphasis should therefore be given to the provision of incentives for non-oil exports.
- Given the increased demand arising from the modification of the arrangements, AFEM demand is likely to run far ahead of supply.

Stimulation of the Productive Sector

(Especially manufacturing)

To achieve an improvement in industrial capacity utilisation, the budget provides for:

- Continuation of Port Reforms – to stem diversion of cargo to neighbouring ports.
- Abolition of pre-shipment Inspection/Import Duty Report (IDR) on imports from designated countries.
- The targets for clearing of goods (including destination inspection) have been set at 48 hours.
- Scrapping of excise duties on all categories of locally-manufactured goods and review of Customs and Excise

Tariffs to align with the economic objectives of government.

- Relief for NERFUND/SME Loan beneficiaries.
- Provision of additional capital of #500 million each to NERFUND/NEXIM for their recapitalisation.
- Removal of Capital Gain Tax to encourage investment in stock and shares.
- Publication of list of taxes and levies due to every tier of government to eliminate multiple levies and taxes by state and local government.

Poverty Alleviation and Employment Generation

Some of the initiatives aimed at improving the standard of living of Nigerians are:

- Deliberate shift in emphasis from income tax to consumption tax through increased personal allowances. This is meant to reduce the tax paid by individual tax payers, enhance their purchasing power, propel domestic demand and leave them more surpluses for Savings and Investment.
- Expansion in government expenditure with a bias towards the rehabilitation of social and economic infrastructure and de-emphasis of government direct involvement in production.
- Vigorous implementation of the Family Economic Advancement Programme (FEAP) FEAP is a government initiative aimed at stimulating small-scale enterprises in the rural areas.

Education Budget Provides for:

- Improvement of Educational Facilities in designated tertiary institutions.
- Budgetary Allocation of N26.7 billion (10.94% of total

budget as against N16.84 billion or 7.42% of the total budget in 1997).

- Each state to be allocated N150 million per annum over the next three years for primary and secondary school facilities improvement.

For the Health Sector:

- Budgetary Allocation of N11.93 billion (4.9% of total budget) or an increase of N4.59 billion over 1997 budget.
- Focus on primary health care, preventive medicine and rehabilitation of existing infrastructure.

Infrastructure Department

N46.28 billion or 18.96% of the budget is allocated to Development/rehabilitation of social and economic infrastructure.

Outlook for the Future

Looking back over the life of the Abacha administration, certain trends are identifiable.

- The first two years after the June 12, 1993 aberration can be described as a period of domestic political instability, hostile external climate and collapse of macro-economic discipline. The consequence being relative economic stagnation as the leadership battled to gain popularity with the governed.
- Since 1995, the economic policy posture has changed significantly resulting in marked economic stability. Apart from modest interventions, there have been significant policy modification aimed at dismantling protectionist walls, opening up of the business environment to improve Nigeria's competitiveness as a place for private investment and a

conscious effort at reducing the dominance of government in the market place.

With this track record of responsiveness to world market trends in terms of consistency in policy reforms, liberalisation and economic rationality; a paradigm shift in terms of the overly negative perception of Nigeria will be in order.

In those sectors targeted for privatisation - Telecommunications, Power and Energy, etc., it is expected that progressively, local and foreign private interests will take over the management of these enterprises resulting in improvements in the quality of these public services and reduced corruption.

Apart from the “enclave” oil sector, other areas with tremendous potential for transforming the economy and that offer opportunities for highly lucrative foreign participation include:

- Banking and Insurance Services,
- Downstream Petroleum activities,
- Agricultural (including forestry) production and processing e.g. maize, sorghum, soyabeans, rice, groundnuts, palm products, cotton and hardwood,
- Fish and crustacean production for low cholesterol protein products,
- Mining: Coal, Special Clays, Lead, Zinc, Copper, Gold, among others,
- Leather processing, and
- Construction.

Through the standardisation of laws and regulations, the provision of tax and investment incentives and general reform of investment codes, the government is consciously creating a favourable climate for future investment. There is also the establishment of the Nigeria Investment Promotion Commission (NIPC) a one stop investment centre, the relaxation of remittance procedure for capital repatriation, dividends and royalty payments as well as,

use of blocked funds.

Threats

The benefits of the budget will only be achieved if there is good and timely implementation of the budget unlike 1997 experience. However, initial signs are encouraging. What with the revocation of banking license of 26 distressed banks within the first month of the budget, and immediate release of warrants for the first quarter by the Federal Ministry of Finance? The hope is that government would maintain this posture in carrying out all the policies of the budget.

Apart from this, success would also be affected by what happens to the price of crude oil. The budget is based on an oil price of US\$17 per barrel. This price may not hold and early signs are tending towards a weaker oil price. This could impinge seriously on the revenue and other financial projections assumed and the volume of foreign exchange available for business transaction etc. Other variables to watch are the possible changes in the rate of inflation and exchange rate of the naira as a result of expansion in money supply and/or increased demand. The reaction of government to changes in these variables will determine the success or failure of the objectives of the budget.

Challenge to the Private Sector

A very important but unmentioned issue is the challenge of the 1998 budget to the private sector especially indigenous private sector. With the budget promising to open all sectors of the economy to the private sector one ventures to ask, has the country a critical mass of core Nigerian companies that can develop comprehensive set of programmes to exploit the opportunities that will emerge and thereby drive the economy? Does the country have sufficient entrepreneurs who can take up the challenge posed by this budget and who by their action will lend support to the Vision 2010 implementation? It seems that Nigeria still has a lot of work to do to develop a virile private sector in this country. The

sooner we accept this truth and do something about it, the better.

Conclusion

Overall, the 1998 Budget Objectives and Strategies effectively address the task of unlocking Nigeria's untapped potentials via:

- reducing the role of government in the economy and eliminating inefficiencies in the delivery of key services;
- promoting fiscal discipline and financial credibility;
- creating an investor-friendly climate and generally laying a solid foundation for sustained growth and development; and
- redressing policy reversals and capricious regulations that tend to destroy the country's image before creditors and the business community.

Furthermore, apart from being consistent with the policy thrust of government since 1995 which forms a good backdrop for investment planning, the budget draw largely from the recommendations of the Vision 2010 Committee. This is a step in the right direction. Also, given the active involvement of the Vision 2010 Implementation Committee, it is safe to expect that significant progress will be made in terms of creating the right environment for investors, and that the incidence of policy reversals either by the current administration or its successors in office will be few and far between.

The 1998 budget poses significant challenges to all and sundry, being the first stride in a 1000-mile journey of private sector led growth, and it underscores the need to:

- open up the financial services sector for multinational competition and develop a venture capital market to support domestic entrepreneurship;
- diversify exports away from the oil sector to reduce the adverse impact of an erratic international oil market;

The 1998 Nigerian Budget

- give added impetus to the achievement of a stable political climate via democratisation and respect for the rule of law; and
- address the “trust” problem between the bureaucrats (who are still suspicious of the private sector and its motivations).

Finally, in the context of Nigeria’s social and economic imperatives, the 1998 Budget of the Federal Government is merely continuing a trend of boldly confronting the nation’s economic problems. The whole-hearted support of Nigerians and friends of Nigeria is therefore imperative to build on the positive result obtained in the last 3 years of sustained improvement in various fundamentals. For instance, it is expected that the government’s commitment to addressing slippages in its policy thrust would elicit favourable responses from the IMP and Nigeria’s external creditors on the issue of constructive negotiation of the Nigerian debt problem. Also, the idea of 100% cash margins for all Letters of Credit deserves a review with the progress recorded so far in key indices.

The original text was presented at a Budget Seminar organised by the Nigeria British Chamber of Commerce, (NBCC)-UK Chapter at London of February 10, 1998.

Chapter 18

Monetary and Fiscal Policy Dynamics: Implications for the Regulation and Profitability of Banking Business

Introduction

In his broadcast to the nation of 17 November, 1994, the late Head of State, Gen. Sanni Abacha, gave his report on the economy on the 1994 budget and implicitly acknowledged the fact that the economy was yet to turn around. However, he blamed the “Powerful vested interests” for this failure. According to him, while the budget was generally welcomed by the Nigerian public and described as a populist budget, it provoked stiff opposition from powerful vested interest who openly and secretly sought to frustrate the implementation of the policy measures from the very day they were put in place. Indeed, the fixing of interest rate at 21 per cent, the pegging of exchange rate at N22 to the \$1, the conservation of all the nation’s foreign exchange at the Central Bank of Nigeria, the direct allocation of foreign exchange to the beneficiaries and the elimination of multi-exchange rate system formed part of an overall strategy to induce a reversal of negative and disastrous trends in the economic sector.

Macro-economic structures have seriously deteriorated due to intractable inflation, lack of transparency and accountability, a suffocating internal and external debt burden, continued and seemingly irreversible Naira depreciation, increasing import dependence, and erosion of savings and investments, with a consequent industrial decline and increasing unemployment.

Industry is still largely dependent on imported raw materials and perhaps is witnessing the lowest capacity utilisation in recent times. Agriculture has continued to decline and so Nigeria is still a major importer of food items. This assertion can be confirmed by looking at items to which “priority allocations” were made in IFEM Bid No.8 of 1994 and subsequent allocations.

Infrastructure is decaying and one only needs to take a look at the condition of Nigerian roads, telecommunication, electricity etc. They do not in any way meet the demands of a rapidly increasing population. Human resources development has suffered severe neglect. Nigerian schools and colleges hardly open for their full academic year.

All these cannot rightly be blamed on deregulation or market forces as 1994 budget intended to do. The failure of deregulation in the Nigerian case was due to inappropriate conceptual framework and very poor implementation by the relevant authorities. The economy would not have witnessed the kind of instability and distortions in the past three years, if the Federal Government had maintained the fiscal discipline required in a deregulated environment. The greatest culprit was the massive and ever- increasing government budget deficits. It was the deficits that bloated the money supply *in* the system which in turn put serious pressure on exchange rate with the attendant inflation.

Monetary Policies

Monetary and fiscal policies must work in tandem to create the right macro-economic framework. To be successful, Nigeria must make strong efforts to achieve low inflation, high savings/ investment levels and real per capita growth. One major observation *is* that Nigeria had relied unduely on monetary systems and controls to restrain inflation and devaluation rather than address the root causes of extra-budgetary and deficit spending. Monetary policies therefore exacerbated instability through excessive money supply growth, CBN's funding of government

deficits, inconsistent attempts to mop up liquidity while trying to fix interest rates or exchange rates at unsustainable levels, and credit allocation policies which penalised the better managed banks. These monetary shortcomings can be readily analysed, but they can only be corrected if solutions are implemented in parallel with sound fiscal reforms and responsible management of both spending and revenue.

The starting point for monetary reforms is to eliminate CBN's funding of government spending deficits. The primary solution is for government to live within its means by keeping spending within budgetary limits. Deficits should be reduced systematically to under 3% of GDP or even reach a balanced budget in the longer term. The supporting solution lies on the monetary side - CBN should stop funding of spending deficits through "ways and means" and create the market conditions conducive for all government borrowings to be financed through market-based instruments at free market interest rates.

Another urgent monetary reform has to do with foreign exchange management. Pegging dollar rate at #22, warehousing all foreign exchange inflows at CBN and all other measures taken in 1994 budget will not solve the problem. They are the wrong solutions.

Although the exchange rate of the naira is important, of greater importance to the economy is the stability of the exchange rate in the long term. What is needed is a set of policies to ensure the continuous inflow of foreign exchange from diversified sources while at the same time restraining demand by means of monetary and fiscal instruments.

This would require acting on both the demand and supply side of the foreign exchange equation simultaneously. A tight monetary policy to mop up excess liquidity from the system via such instruments as cash reserves and liquidity ratio requirements supported by Open Market Operations (OMO) will help curtail demand. Aggressive revenue mobilisation and fiscal restraint will

help minimise fiscal deficit. This could be achieved by eliminating all forms of subsidy in the system and ensuring that all custom duties due to government are duly collected and accounted for.

Removal of all bottlenecks to foreign exchange inflows will help the supply side. For example, it has been said several times that the 1962 Foreign Exchange Control Act is a major obstacle to portfolio investment. Re-establishment of autonomous foreign exchange market will boost inflows from export proceeds and the repatriation of funds held by Nigerians offshore.

The general experience of countries which have totally deregulated is that significant inflows of foreign exchange – particularly capital flows – are the direct result.

Fiscal Management

Two basic principles are the key to all areas of revenue management, namely:

- The need for complete fiscal transparency and accountability for both revenue and spending - since public trust is the foundation for revenue collection in any society, and
- The discipline to spend the minimum needed and to return any excess to the private sector to spend.

Implementation of these two basic principles would help ensure that government spends only the necessary and delivers visible results; that there is complete fiscal transparency and accountability; and that funding is for the right size of government with any excess funds returned to private hands to spend.

Efficient revenue collection should focus on petrol pricing and Modified Value Added Tax (MVAT). Major revenue increases therefrom should be heavily dedicated to pay debt (eliminate deficit spending). Any remainder should be earmarked in fully disclosed accounts and used for education, health, roads, mass transport and security.

MVAT needs to be carefully implemented, for it is a new concept and requires completely different administration systems. Reforms should be made to improve direct taxation and strengthen compliance. The Customs and Excise department should be strengthened and the duty collection process streamlined.

Regulation and Profitability of Banking Business

Banking business in Nigeria is highly regulated. Regulation, especially as it relates to the health of banks, is a common feature in most countries of the world. However, it is only in a few countries where the price, product and activities of banks are so highly regulated as done in Nigeria.

Regulation stifles innovation and creativity. It punishes better-managed banks and discourages differentiation. All these have adverse effects on the profitability of banks. The well-managed banks are penalised while the poorly-managed ones are encouraged to stay on.

Uncertainty

The frequent changes in policies has made it almost impossible to plan or take long term decisions. Banks operate on a daily basis using ad hoc approach to decision making. How many banks have been able to make a successful three-month forecast or projection? Certainly, not many, if any. Uncertainty generally leads to instability, speculation, lack of confidence in the system and therefore sub-optimal decisions which in turn further runs the economy down. This is the biggest threat to banking business today.

Cost Escalation

The cost of doing business has tripled this year partly as a result of the falling value of Naira. The price of every item used by banks ranging from diesel to run generating sets (NEPA is now used as stand-by by most organisations) to stationery, computer

hardwares etc., all increased at least threefold in 1994. As one can remember, this was the worst year in terms of inflation in the recent past.

The impact of escalating costs is even more crushing because such escalation is occurring at a time when revenues are declining sharply. This translates into huge drop in nominal profit.

Reduced Activities and Margins

This is another very serious problem which banks had to grapple with in 1994. Before January 1994, average lending rate for commercial banks was about 45% while average cost of funds was about 20%, leaving a handsome margin of 25% to cover overheads. However, 1994 budget pegged interest rate at 21 % while a band of 12% - 15% was set for deposit rate, thus leaving the banks with a meagre 6% margin. The squeeze in margins occurred at a time when costs were doubling every quarter.

The second aspect has to do with the general reduction in the scope and volume of activities. As the Nigerian economy is heavily dependent on imports it is driven by foreign exchange availability. With the pegging of Dollar rate at #22 and the warehousing of all foreign exchange inflows at CBN in 1994, the volume of activities of most banks declined sharply. All these had negative impact on banks' profit.

Inflation

This is a pervasive problem. It discourages savings. It is a huge tax on people's earnings. It fuels instability and erodes confidence in the economy. Savings rate was pegged at 15% when inflation was running at well over 300% per annum. The disincentive to save was high that nobody wanted to place money beyond 30 days. Little wonder long term credits all dried up and most banks used their limited funds for IFEM bidding only.

No economy can develop without long term funds to finance capital projects and expansions. For a long time, Nigeria may remain basically a trading country. Inflation also affects the value of banks' profits. For instance, the real value of banks' profits dropped significantly in 1994 when adjusted for inflation. A bank that made N100 million in that year would have made the equivalent of N50 million of 1993 Naira.

Impact on Client Business

Regulation of the economy has adversely affected most companies in the real sector. This was evidenced by low capacity utilisation, reduced margins, high costs etc. In turn, this affected their ability to repay loans and other credit facilities extended to them. A cursory look at what happened in textile industry revealed that most of the companies operated at about 10% of their installed capacity. The implication for banking business was high bad debts (loan losses) and therefore reduced profits. The distress in the real sector may further compound the existing distress in the financial sector.

There is a need for further deregulation or liberalisation in the following areas: Removal of the pegging of interest rate. Credits are supposed to be priced against risk. So why compel banks to charge uniform interest rate to customers irrespective of risk classification or quality?

Pegging of dollar at N22 should be reviewed while banks should be allowed to deal in funds from autonomous sources.

Lifting of sectoral credit limitations so that banks give credits based on rationality and project economics and not based on CBN prescriptions;

The abolition of Bankers Tariffs and other controls not related to the health of a bank so that banks compete freely based on quality of services- and competitive prices, and;

The elimination of the need for existing banks to secure approvals from CBN for such items as location of new branches, advertising and audited accounts.

The autonomy of the CBN to formulate and implement monetary policy and to licence and de-licence erring or irretrievably distressed banks.

It is good to note that a new decree: The Failed Banks (Recovery of debts) and Financial Malpractices in Banks Decree has been promulgated. The decree empowers CBN and NDIC to deal more decisively with problems arising from failed banks.

The need for macro-economic stability can not be overemphasised. Without it, no meaningful economic development can be achieved. Nigeria has to return to a market based economy and stop deluding itself as to whether it can swim against the tide. It cannot successfully peg the price of a commodity that is grossly in short supply. 1994 was an extremely difficult year for business in Nigeria. But the environment can be made more friendly in the future by liberalising some of the economic policies.

It is about time to stop the self-delusion of trying to prove wrong tested policies that have worked elsewhere and the world economy. Unless Nigeria does so, very soon it will find that it is in the world, and yet out of the world.

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Chapter 19

Improving the Tax Payers Rights and Obligations in a Changing Nigerian Environment

Sources of Governments' Revenue

The basic function of the state is the promotion of the wellbeing of its citizens by providing facilities for their common use. The responsibility for the provision of such facilities which constitute a form of social contract, covers a wide range of activities all geared towards improving the welfare of the citizens. Some of these facilities which cannot be adequately provided by many members of the society on their own and therefore require the support of the government of the state include healthcare, education, electricity, transportation, water supply, defence, etc.

In order to execute these social responsibilities, the government of the state needs to generate a lot of revenue. The revenue of the government is derived mainly from the following sources:

Natural resources: This involves the exploitation of natural resources such as oil, solid minerals, etc. This source of revenue constitutes the highest bulk of income accruing to the government.

Taxation: This involves imposing various types of levies and taxes. Taxes constitute one of the major sources of revenue to most governments.

The focus of this chapter is on taxes as an instrument in the hands of government for raising funds and achieving other purposes.

Specifically, we will focus on the tax payers rights and obligations in the Nigerian changing environment.

Definition

A tax represents a levy imposed by the state authority on individuals and corporate bodies. Although taxes are impositions, the consent of the tax payers is required or presumed to have been obtained before such levies are imposed. In a democratic dispensation, such consent is given through the elected representatives of the people in the legislature. It should be recalled that the slogan during the American war of independence was 'No Taxation Without Representation' .

Why Do We Pay Tax

Revenue

In order to meet the enormous responsibilities of promoting the wellbeing of the citizenry, the government needs a lot of resources. It is pertinent to mention that for most economies, taxes constitute a major source of finance to the government.

Other Reasons

Apart from being a major source of income to the government in executing its budgets and development plans, it is also a fundamental tool at the disposal of the government in meeting its fiscal and other economic policy objectives, such as:

Regulation of Economy: To control inflation and deflation in the economy taxation can be used as a fiscal policy instrument to control the quantity of money in circulation thereby controlling the rate of inflation.

Income Redistribution: To reduce income inequalities amongst the citizenry. This is achieved by adopting a progressive tax system which entails imposing high rates of tax on high-income earners to finance social amenities for the low income group.

Redistribution of Industries: It can also be used to channel private investment to desired sectors of the economy. For instance, to reduce the inequalities in the geographical distribution of industries in the country, the rate of tax for areas lacking in industry could be reduced.

Foreign Investment: To attract foreign investments in the country by giving tax incentives to foreign investors in priority areas of development.

Protection of Infant Industries: To protect the infant industries against undue competition from well established multinational companies.

Change Agent: To effect a change in the social set up of the society, for example, personal relief, children's allowance, life assurance relief, etc., affect the social structure of the whole country.

Encouragement: To encourage the citizens to participate in some particular types of activity e.g. agriculture, oil exploration etc.

Discouragement: To discourage the production of harmful goods and services such as tobacco, alcoholic drinks etc.

Categories of Taxes

In order to meet the above objectives for the imposition of taxes, various types of taxes are applied.

Taxes can be classified into two main groups- direct and indirect taxes.

Direct taxes: This category of taxes is based on ascertainment of income and the assessment of such income to taxation. Examples of such taxes are as follows:

- Personal Income Tax.
- Companies Income Tax.

- Petroleum Profit Tax.
- Capital Gains Tax.
- Education Tax.

Indirect taxes: This category of taxes is levied on goods and services and each person pays according to the level and rate of consumption. Examples are as follows:

- Value Added Tax.
- Customs and excise duties.

Another way of classifying taxes is by the source of tax. Thus we can have:

- (i) Taxes on actual or presumed net income of individuals and companies or gains in the use of capital. For example, personal income tax, companies income tax, petroleum profit tax and capital gains tax.
- (ii) Taxes on domestic goods and services such as value added tax, turnover tax, excise duties etc.
- (iii) International trade taxes such as import duties, export duties etc.
- (iv) Social Security Contributions. Examples are employers' and employees' contribution.
- (v) Other taxes such as property taxes, rates etc.

Tax Administration

The administration of tax laws in Nigeria is decentralised into Federal, State and Local Governments levels in accordance with the country's federal status.

At the federal level, tax is administered by the Federal Board of Inland Revenue and other bodies like Nigerian Customs Services, Nigerian Port Authority etc., charged with the collection and management of particular taxes.

At the state level, the State Board of Inland Revenue collects and administers PAYE tax with the exception of members of the armed forces, police, residents of Abuja, non resident and external affairs employees.

The local councils are also entitled to certain categories of tax such as tenement rates, marriage, birth and death certificate etc.

Timely Codification of Tax Laws

The various tax laws applicable at Federal, State and Local government levels are usually subject to reviews in the annual budgets. This practice is agreed to being a good one as it makes our tax laws very dynamic. However, the codification of such changes are falling behind. Most of the tax provisions in the 1994, 1995, 1996 and 1997 budgets for instance are yet to be gazetted.

In order to ensure that tax laws are known to all interest parties and are uniformly applied, it is imperative that all tax laws are properly and timely codified or gazetted. Such codification will ensure not only that the rights of the tax payers are exercised but also ensure that their obligation on tax requirements are met.

Improved Education of Tax Administrators on Tax Laws

In order to improve tax administration, there should be concerted efforts to improve the knowledge, skills and competence of the tax administrators to enable them carry out their responsibilities professionally. Tax administrators should therefore be made up of officers who are knowledgeable in economics, accounting, management, law etc., in addition attending regular training programmes, symposia and seminars.

To address this problem, the government in the 1997 Budget breakdown stated that the State governments should apply fees payable to contractors in improving the tax administration by acquiring the necessary tools for tax management in the states.

This should include the training of personnel, provision of infrastructural facilities, provision of incentive schemes, provision of necessary equipment, library, stationery etc., for tax administrators in the state.

The acquisition of the above skills and infrastructure will not only improve the interpretation and administration of tax laws but will also lead to an improvement in the relationship between the tax payers and tax authorities. This will invariably be to the mutual benefits of the tax payer and the tax authority because the tax payer will be able to secure all his rights as well as fulfil all his obligations. Amendment to the existing tax laws in these areas would be quite worthwhile.

Proposed Amendments to Tax Laws

Reduction of Personal Income Tax: The present amount of income exempted from tax is too low. Also, the amount subjected to tax within a bracket should be reviewed upwards and indexed for inflation. This will increase the disposable income of the citizen, help in capital formation and boost production level.

Elimination of Capital Gains Tax and Stamp Duty: The government should also consider eliminating capital gains tax and stamp duty. This will not only encourage investment in capital goods and inflow of foreign capital into the economy, it will also lead to the deepening of such capital goods market as stock and property markets. The abrogation of these tax laws will in addition reduce the cost of doing business in Nigeria.

Reduction in Corporate Rate: In view of government's determination to encourage small and medium size enterprises, it is advisable that the companies income tax should be made to be more equitable by ensuring that the incidence is fairly distributed. This can be done by graduating the corporate tax rate such that lower profits attract lower rates. This will encourage retention and reinvestment of earnings needed for growth of these firms.

In summary, the government should de-emphasise direct taxes which do not only serve as disincentive to savings (both individual and corporate) but also are difficult to administer. Emphasis should rather be placed on such indirect taxes as value added tax given the relative ease with which they are administered and the high volume of revenue generated through them.

Tax Payers' Rights

To ensure that the tax payer fulfils his tax obligations to the state, it is imperative that his numerous rights should be respected by the state and the tax authorities. The following are the various measures that should be in place among others to ensure that the rights of the tax payer are not only guaranteed but also improved upon:

Canons of Good Taxation System

The fundamental rights of a tax payer are inherent in the canons or general principles of good taxation. Some of these principles are:

Convenience: The timing and the method of payment must be convenient. A tax payer must know the amount of tax he or she is expected to pay. In other words, the tax must be collected at an appropriate time that is convenient for the tax payer. For instance, Pay As You Earn (PAYE), is paid at the end of the period which in Nigeria is usually monthly.

Economic Justice: A tax must be reciprocal to the services and obligations discharged by the government to the citizens in the country. Any taxation that does not meet this criterion is regarded as an act of economic injustice. This is an important reason why the problem of tax evasion is quite pronounced in Nigeria.

Equity: A tax is said to be progressive or equitable if a low income earner is made to pay a low tax rate. In other words, the burden of

taxation must be distributed according to individual capacities to pay.

Cost Effectiveness: To maximise the benefit from taxation, the cost of collection should not be more than the revenue generated.

Provision of Information

Information refers to the exchange of ideas, news, knowledge, facts about taxation from the tax authorities to the taxpayers and vice-versa. The communication here is a double directional process. In communicating ideas, facts and knowledge about taxation to the taxpayer, clarity of language is very vital. Any information that is ambiguous would misinform and mislead the taxpayer and thereby generate a lot of confusion. Information bulletin intended to enlighten the taxpayer should be in clear, plain and precise language for him to understand. Effective communication should be the hallmark of the tax authorities.

Publicity intended to enlighten taxpayers about their rights and obligations should be the pre-occupation of tax authorities. Tax payers should be properly enlightened about their rights and opportunities. It would appear that the vast majority of our taxpayers are not aware of opportunities provided in our tax laws which in effect robs them of opportunities they would have fully utilised to their own gains. There is therefore, the need to step up publicity in both the print and electronic media.

Another aspect of information process is for tax authorities to make taxpayers realise that they can seek redress when they feel aggrieved with the tax authorities over any tax matter. The tax payers should be made to know about their rights to seek redress through Local Appeal Committees or Body of Appeal Commissioners. The advantage of this is that it instils confidence in the taxpayer about the country's tax system.

Sealing Up of Premises

One area where the rights of taxpayers have been apparently abused and where significant improvement could be achieved in the exercise of the taxpayers rights is the current confusion in the administration of tax through the use of tax consultants by virtually all the state governments of the country. The tax consultants have been sealing up some business premises on the grounds that such companies have refused to pay tax, despite the pronouncements of the Joint Tax Board that such actions are illegal. The negative impact of such arbitrary closure of the business premises of such companies on their goodwill and profitability could be better imagined. For instance, PZ Industries Plc, the well known conglomerate, was sealed up for two days in early 1997. The same fate befell First Bank Nigeria Plc. The fact that these big companies could be sealed up underscores the plight of many small organisations under this tax regime. Again, this sort of actions could scare foreign investors. However, these problems have been addressed in the 1999 budget (Vision 2010 too has taken care of it).

Multiplicity of Taxes

The problem of multiple tax laws and levies is also a thorny issue which the private sector has to contend with. In order to improve internally-generated funds, virtually all the state governments have come up with different taxes and levies which have been a burden on the companies. It is gratifying that the Joint Tax Board has published the list of all approved taxes and levies collectible by each tier of Government namely: Federal Government, State Government and Local Government. Although, the list became effective from 1st April, 1997, this directive did not become immediately operational in some states.

Education of the Taxpayers

Education involves the teaching, training and instructing of taxpayers about tax laws, regulations and provisions by tax

authorities with a view to getting voluntary compliance in working for a higher revenue yield, amongst other goals.

An understanding of tax law as well as currency in policy changes will assist many a taxpayer to comply effectively with tax laws, reduce the cost of compliance, eliminate ignorance of incentives and deductions allowed in the tax system and reduce avenues for friction with tax authorities.

The taxpayers will be well-informed and educated if more resources are committed in the printing of relevant tax pamphlets, news bulletins, tracts, magazines, newspapers, car sticker, leaflets and literature which are good vehicles for bridging the gap between taxpayers and tax authorities. Of the greatest importance is a tax literature on fiscal policy measures for each year.

Education of taxpayers about taxation and tax administration should be seen as a socialisation process. It is intended to create certain beliefs, norms, and values in the taxpayer with a view to creating a tax paying culture that is free of friction. Once the tax payers are aware of their rights and opportunities, a healthy tax culture develops which shuns tax evasion.

It is therefore obvious that a good working relationship between taxpayers and government is needed to realise the noble goals of Government. An improved relationship means improved results and should therefore be encouraged. This is to say that the tax authorities must make deliberate efforts to reduce possible inconveniences in the path of voluntary compliance. Compliance cost in terms of time and other monetary resources must be reduced to the barest minimum. This means that tax payers must be attended to promptly. Appropriate retrieval system must be installed at tax offices to enhance speedy response to any enquiry. As for resources spent on compliance, tax offices must be located within easy reach and preferably in every local government area. To be otherwise is to encourage non-compliance.

Other Rights

It is believed that with proper training of the tax administrators, the following rights of the tax payer would be further enhanced:

- *The right to be treated with courtesy and consideration:* the tax official should at all times carry out his duties courteously, considerably and promptly. A prompt and polite reply to correspondence is the tax payer's right, not a privilege.
- *Fairness:* The tax payers should have their liabilities decided promptly and be required to pay only the amount of tax due in accordance with the law. They should be presumed to have dealt with their tax affairs honestly, unless there are reasons to believe otherwise.
- *Privacy and Confidentiality:* All information about the tax affairs of tax payers which come to the knowledge of the tax officials should be treated in strict confidence and used only for purposes allowed by tax laws.
- *Appeal:* The taxpayer has the right of appeal against any assessment. The body of appeal commissioners whose responsibility is to hear cases have not been constituted in some states. Also notice of refusal to amend an assessment is not easily obtained by the tax payer.

Obligations of the Tax Payer

The taxpayer is an enabler of good governance. Since tax is one of the tools for good governance, it is the obligation of every citizen to register with the tax authorities and pay his taxes as and when due. These obligations are better discharged if the tax paper is well informed of the reasons for imposing the tax and where appropriate the rights attached to the obligations. For instance, the awareness that payment of tax on certain property bestows ownership rights on a payer, will certainly encourage a tax payer to discharge his obligations as and when due.

Conclusion

This chapter has examined the various sources of revenue to the government. Taxation has been identified as a vital source of revenue and a veritable instrument for the management of the economy. It has the justification for the payment of tax by the members of a society which is the need to ensure that the government of the state generates revenue to meet its social responsibility of improving the wellbeing of its citizens. The different types of taxes have also been mentioned and some ways of improving their administration have been proposed.

Specific areas of the Nigeria tax laws that require some amendments such as the reduction in the rates of personal income tax and companies income tax, as well as the elimination of capital gains tax and stamp duty are hereby reiterated.

Furthermore, some of the rights and obligations of the tax payer have been identified in this chapter while it has been emphasised that future tax laws should be made to conform with the four canons of a good taxation system.

Finally, it is strongly believed that if all these recommendations are implemented, the taxpayers will voluntarily discharge their tax obligations.

The text was originally presented at the 27th Annual Senior Staff Conference at Abuja on December 17, 1997.

Chapter 20

The Nigerian Financial System: Prospects for Economic Development

Introduction

No day passes now that one does not hear or read of serious economic turmoil in one country or another. No day passes that one does not read or hear of major corporate failures that shake and oftentimes threaten the economic stability of various countries. These crises which are spreading like wildfire worldwide have most often been attributed to the fragility and general weakness of the financial sector of the affected countries. Thus never before has so much attention been focused on the financial sector of the world economy and by extension of each country.

The centrality of the financial sector has never been more manifest. Thus any country that fails to ensure its stability and health is courting serious trouble. To toy with the financial sector is to toy with the economy. It is to toy with the strategic health of a country and its people. The subject matter is therefore very relevant in our country's life especially now that the nation is embarking on both political and economic reform programmes.

Several opinions have been expressed on the role of the financial system (or markets) in economic development. A related issue is whether the financial system needs to be regulated to ensure that public policy objectives of economic development are achieved. The discussions on this topic are usually theoretical and sometimes

empirical. Analysis are also undertaken to examine these theories. The conclusions are usually mixed.

This chapter re-examines this issue and argues that there is actually a dual-causal relationship between economic growth and financial system development. Development of the real sector can bring about financial sector development, just as financial development can also lead to growth in the real sector. Indeed it can be said that a country's economic system is as strong as the strength of its financial sector, especially its banking system. An unstable and fragile banking system can seriously disrupt a country's macroeconomic performance; herein lies the justification for a sound, stable and viable financial system.

The chapter is divided into four sections. Section one briefly reviews the current structure of the Nigerian financial system. The second section examines the theoretical relationship between the financial system and economic development. Section three discusses the prospects of various financial institutions in engendering economic development in Nigeria. Some concluding remarks are given in section four.

An Overview of the Nigerian Financial System

The current structure of the Nigerian financial system (Figure 20.1) came into effect in January 1997. In this new arrangement, the financial system was divided into three: the banking system, the capital market and the insurance industry.

Central Bank of Nigeria (CBN) is the apex institution in the banking system. It is responsible for controlling and supervising commercial banks, merchant banks, finance houses, discount houses, community banks, primary mortgage institutions, People's Bank, bureau de change, all of which are deposit taking institutions. All development banks, though not deposit taking institutions, are also regulated by the Central Bank. The Nigeria Deposit Insurance Corporation (NDIC) is supposed to insure the deposits

in all deposit taking institutions, but is allowed to use its discretion on whether or not and when to insure all deposits. It currently insures the deposits of all commercial and merchant banks. The National Insurance Commission (NAICOM) is the supervisory body for all insurance companies, which are to render returns to it. The Securities and Exchange Commission (SEC) is the regulatory body for the brokerage firms and the Nigerian Stock Exchange.

The NDIC, SEC and NAICOM are autonomous of the Central Bank of Nigeria but are all, including the CBN, under the Federal Ministry of Finance*. The Chief Executives of all the five institutions are members of the Financial Services Regulation Co-ordination Committee (FSRCC). This body chaired by the Minister of Finance meets to co-ordinate the supervision and regulation of the financial services industry.

The main advantage of the present regulatory framework is that it has for the first time, brought all deposit taking financial institutions directly under the supervision of the Central Bank of Nigeria. Hitherto, the People's bank had no regulatory institution, it was reporting to the Presidency. Likewise community and mortgage institutions were not effectively supervised. The FSRCC, which has been functioning before has now been given formal recognition. The only drawback of the current arrangement is that the NDIC retains its discretion on whether or not and when to insure deposits of any institution.

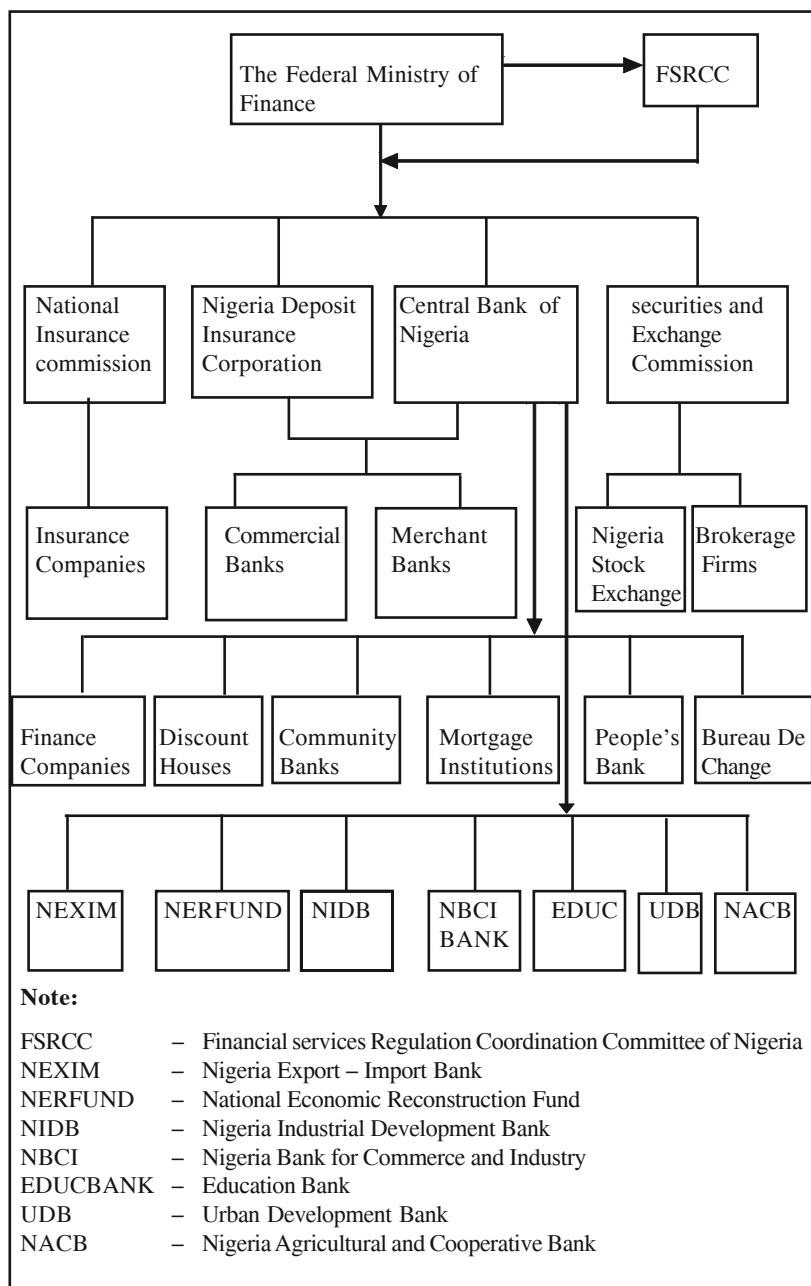


Figure 20.1: The Structure of the Financial System

The structure of the Nigerian financial system has been changed a number of times since independence. Often the changes are necessitated by the introduction of a new financial institution or a regulatory body. Sometimes, the changes are brought about to further strengthen the system. At other times, however, changes have been brought about without comprehensive examination as to the impact of the change on the system and the economy as a whole. Whenever a change is made, it should be done in such a way that the public policy goals of the government could be achieved. These public policy objectives include among others:

- Promotion of efficient intermediation.
- Maintenance of stability and confidence in the system.
- Protection against systemic risk and collapse.
- Achievement of monetary policy goals.

It should be noted that these policy objectives are not mutually exclusive. For instance, unless the financial system is protected against systemic risk, public confidence will be eroded. However, unless there is public confidence in the system deposit mobilisation will be difficult and hence efficient allocation of surplus resources to profitable ventures will be impaired. Thus without efficient intermediation the financial system could not bring about any meaningful economic development and growth.

Relationship between Financial System and Economic Development

The relationship between the financial system and economic development and growth is sufficiently obvious. However, there is a symbiotic relationship between the financial markets and the real sector growth, which blurs the direction of causality. The financial system makes significant contributions to the process and magnitude of economic growth in several key ways. These include the following:

- To the extent that the financial system efficiently mobilises and allocates societal savings, it promotes growth by raising the savings rate, channeling savings into investment, enhancing the efficiency of capital accumulation and by eliminating costly disruptions to the investment and production process. In addition by increasing the rate of savings the financial system helps to reduce the fraction of societal savings held in the form of unproductive liquid assets.
- The financial system provides a more efficient allocation of these savings into investment outlets than the individual savers can accomplish on their own.
- It increases the fraction of societal resources devoted to interest-yielding assets and long-run investment, which, in turn, facilitate economic growth.
- It reduces risks faced by firms in their production processes by providing liquidity and enables investors to improve their portfolio diversification by providing insurance and project monitoring information.
- It induces firms to operate more efficiently by monitoring loan projects and by offering financial protection against premature liquidation of their capital.

Clearly, to the extent that the financial system enhances the mobilisation of resources, improves the allocation of capital and enhances the productivity of firms, it should make significant contributions to overall economic development and growth.

Financial institutions mobilise savings and allocate credit. The larger and wealthier an economy is, the greater should be the volume of resources that can be mobilised and invested. In this simple way, it can be shown that the size and growth of the real sector is capable of influencing the size of the corresponding financial system. As an economy develops, many different types of financial intermediaries emerge to offer borrowers and lenders

a wide range and variety of financial services. The demand driven nature of most financial services implies that real sector economic growth influences the range and type of financial services in an economy. In general, as an economy develops its economic agents tend to evolve from self-finance to external finance whilst acting as stimulus for the development of institutions and markets for direct credit.

In fact, empirical studies have established strong evidence of a positive correlation between the level of real per capita income and the ratio of credit to overall income. This implies that countries with higher incomes have more developed financial systems.

Finally, the allocation of credit by the financial system has important implications for economic growth. In particular, empirical evidence indicates that:

- Countries with faster growth rates tend to have financial systems that allocate a larger proportion of total credit to the private sector; and
- The share of credit allocated to the private sector by the financial system is positively and significantly correlated with both, the investment rate and the efficiency of investment.

Given the two-way nature of the relationship between finance and economic growth, it would appear that one might not necessarily be used effectively to lever the other. The nature of the relationship also implies that a country may experience a vicious cycle in which both the financial system and the real sector grow together in a mutually reinforcing way or a vicious cycle in which they both stagnate and decline. Hence, financial sector reform and market liberalisation would be more effective if they were accompanied by other policies that directly stimulate real sector growth and enhance overall macro-economic stability.

The Prospects of Engendering Economic Growth via Financial Institutions

The 1998 Federal Government Budget raised a lot of expectations. The government based the budget on broad objectives, which include price and exchange rate stability, job creation and sustainable growth. Specifically, government targeted expanded production, sustained fiscal discipline, appropriate monetary and credit policy stance, human capital development, improvement of social and economic infrastructure, improved revenue generation and sustained transparency, accountability and comprehensiveness in the conduct of governance.

Apart from direct benefits from the budget, the financial sector looked forward to benefit from the job creation and poverty alleviation programme of the budget. The tax reforms, guided privatisation and the opening up of government monopolies to greater competition were expected to boost economic activity by increasing aggregate purchasing power, enhancing demand for products, creating more jobs and enabling businesses to revitalise their operations, which would ultimately benefit the financial system.

Unfortunately, more than seven months after, several strategies that were to be followed to achieve the above objectives remain unimplemented. The guided privatisation, which is a prime strategy of government in the budget, did not take off. The pronouncement pegging the percentage of NITEL and NEPA shares to be disposed to foreign partners to 40 percent was the only guideline issued. The Family Economic Advancement Programme (FEAP), which is another strategy, made some disbursements to beneficiaries. But the programme, along with NDE and the Peoples Bank, were undergoing a review by government.

Not only did the government fail to implement the budget strategies, even the revenue targets moved against projections.

While the budget was built on US\$17 per barrel of crude, actual sale oscillated between \$11.00 and \$12.00.

Against this backdrop, the N257 billion expected from that sector became simply a mirage. The non-oil sector however, witnessed a little below budget performance.

On the positive side, inflation fell to 6.3 percent in May and was expected to fall further, therefore Government could be said to have kept within its target for the year. However, the economy continued to exhibit signs of serious slow down. The budget was largely left unimplemented, as there were major distortions. The statistics from the real sector – manufacturing in particular – show the production levels to have been below last year's levels. Hence the 5.5 percent projected growth was not realised.

The big question is whether the financial system has been responsible for the poor performance of the economy or has the poor performance of the real sector due to lack of appropriate growth policies stultified the financial system? For sometime now it has been the usual practice to blame the financial sector and its operators for the economic woes of the country even though we all know how abysmal the performance of other sectors of the economy has been. That the Nigerian financial sector has been bedeviled over time by weak management and poor structural environment, is no longer news. That its banking system suffers from lack of transparency, relatively low level of competence and questionable integrity is also common knowledge. That the key operators in the industry have not really confronted these problems frontally is also common knowledge. Unless and until this is done, the financial sector and its operators will not achieve any respect whatsoever. All these problems have been exacerbated by weak macroeconomic environment and the inability of government to decisively deal with the distress in the system and numerous problems confronting the economy. What is the current status of the various components of the system?

Commercial and Merchant Banks

Insider abuse, adverse economic conditions, managerial incompetence, inadequate supervisory/regulatory capacity that are the major causes to the distress syndrome and which became apparent in 1993, intensified in 1994 and reached an epidemic proportion in 1995. Since 1994 thirty-one banks have gone under liquidation, a few have been taken over by other banks or some management groups and few are still under the management and control of the NDIC. All the banks have been given up to 31st December, 1998 to increase their paid up capital to a minimum of N500m (Five hundred million Naira) or risk being liquidated. Table 20.1 shows the performance of banks from 1990 to 1998.

TABLE 20.1: Distribution of Banks by Performance

	1990	1993	1994	1995	1998
Banks in Liquidation	Nil	Nil	4	5	31
Banks Taken-over	Nil	Nil	Nil	Nil	19
Distressed Banks	8	28	51	55	19
Margina Banks	N/A	56	21	26	30
Satisfactory Banks	N/A	16	28	23	17
Sound Banks	N/A	19	15	8	8
Very Sound Banks	N/A	1	1	3	5
Total	120	120	120	120	120

Source: Number of distressed banks is as per NDIC Annual Report

Of greater concern here is the fact that the second most important cause of bank distress, after insider abuse, is the adverse macroeconomic conditions the country has witnessed in the past decade. All the known basic infrastructures are in shambles, cost of imported raw materials has increased significantly forcing many industries to close down. Those industries that are able to import necessary spare parts and raw materials are left with unsold finished goods inventory owing to the deterioration in the purchasing power

of consumers. The near collapse of the manufacturing sector has increased the level of nonperforming loans and thereby led many banks into distress.

Because of the growth of distress in the banking system, an increasing proportion of the industry market share has been concentrated in the hands of fewer and fewer banks. Industry assets, deposits and profits continue to be concentrated in the hands of the bigger banks or the more efficient players at the expense of ever increasing club of distress and marginal banks as in Table 20.2.

TABLE 20.2: Past Trends in Market Share

Market share of:	By Size	1996 %	1995 %	1994 %	1993 %	1992 %
Total assets & Contingents	Top 10 banks	70	68	63	58	50
	Top 20 banks	86	83	79	71	65
Total deposits	Top 10 banks	69	69	66	61	50
	Top 20 banks	87	84	82	78	64
Profit after tax	Top 10 banks	64	61	60	49	17
	Top 20 banks	86	83	80	67	27

Source: Agosto & Co

The events of the last decade have redefined the rules of the game for all banks that have succeeded to remain alive. Short-term profitability and liquidity are now the key determinants of all actions taken by banks. Economic development, though noted to be an important objective, is only considered in as much as it is in line with short-term survival. Hence key real sector operatives, such as small-scale industries and farmers are denied the right type of finance at the appropriate time, in appropriate amount and on satisfactory terms from banks. The fault is not necessarily

that of the banks since most of their funds are of a ninety day (*maximum*) duration and the enterprises require long term funds. This problem has to be seriously and realistically addressed if the country's efforts at industrialisation is to be realised in the foreseeable future.

Development Banks

It was owing to the difficulties faced in sourcing long-term finance that the government set up some specialised development finance institutions to provide medium to long-term funds for industrial project development and agriculture. These institutions include Nigerian Industrial Development Bank (NIDB), the Nigerian Bank for Commerce and Industry (NBCI), the Nigerian Agricultural and Co-operative Bank (NACB), the Urban Development Bank (UDB), the Nigerian Export and Import Bank (NEXIM) and the National Economic Reconstruction Fund (NERFUND). Although over the years the institutions have contributed in the area of medium-term project financing, their effectiveness has been less than optimal. Notable among their problems are inadequate resources, high rate of loan default due to lack of post-disbursement supervision and technical assistance and others attributable to the instability of the macro-economy. The government has recently taken some steps to address these problems. Some of these steps include:

Loan Default: The government's acceptance of the demand of both finance and manufacturing industry operators that loans denominated in foreign currency acquired through NEXIM and NERFUND by small-scale industrialists before 31st December 1994 be repaid at the rate of #22 to the dollar. This decision has brought a great relief to banks that have been carrying a large portfolio of such non-performing debts. In fact a number of distressed banks owe their predicament to huge exposure to these facilities. The small-scale industries too will be in a better position to repay these facilities.

Inadequate Resources: Worried over their weakening financial resources due to the deterioration in the value of the naira, the development banks have asked for an upward review of their capital base. The government has also looked into their plight and approved an increase in the value of the shareholdings of the CBN and Ministry of Finance Inc. (MOFI) in key development banks. NIDB had its paid up capital increased by #297.7 million. NBCI too received #150 million to reposition itself and return to its role of promoting commerce and industry, the bulwark of modern economic development. Other development institutions that benefited include the Federal Mortgage Bank and the People's Bank. Surprisingly, the National Board for Community Banks, another veritable institution for reaching the grassroots, has been left out of the budget. The above measures, though seemingly, in the right direction do not sufficiently address the problem. There is a price to be paid if Government wishes to force the pace of industrialisation. It has to decide what the nature and level of industrialisation it wants, the pace, what it would cost and whether it is willing and capable of paying that price. If the final answer is yes, it should go ahead in a determined fashion to effectively implement. However, if the answer is in the negative, it should hands off completely and allow the private sector to carry on.

Capital Market

Under normal circumstances, capital markets are veritable but often neglected vehicle for mobilising long term funds for investment. Through issuance of bonds and equities, capital markets play major role in the financing of investment projects.

The Nigerian capital market like the other sectors of the financial system has been a victim of growth inhibiting macroeconomic policies. The policies have made it impossible for the mobilisation of long term savings which could be channeled towards securities through institutional investors. The effectiveness of the national pension scheme, private pension funds, insurance funds, etc., is a case in point. In the capital market, the issuance of debenture

stock for financing projects has been largely restricted to only those promoters who can float tradable securities through the stock exchange. This is because investors prefer to invest mainly in quoted securities. It is hoped that the various reforms taking place in the economy will include the capital market to enable it develop sufficiently to play the developmental role expected of it both in the funding of agricultural and industrial projects and infrastructural development.

An all-embracing securities law is now required to harmonise the operations in the capital markets. This law will be the source of authority and power of every player in the market such as Securities and Exchange Commission (SEC), The Nigerian Stock Exchange (NSE), issuing houses, stockbrokers, etc. It should also define the roles and points of interface as well as the relationship between the capital market and the apex financial institution.

The Stock Exchange has witnessed an impressive increase in market operational efficiency since the introduction of the Central Securities Clearing System Limited (CSCS) in 1997. The CSCS was introduced to handle new share delivery and settlement system and has since its introduction made significant improvement in the secondary market transactions. Unlike the pre-CSCS days, when daily average volume stood at below 3.5 million ordinary shares, the daily average has now increased to about 5 million ordinary shares.

Despite the improvement in operational efficiency, however, the market has continued to remain skewed, as equities trading continues to dominate activities while government development stock sectors and bond sector remain near-dormant. This indicates investors' preference for equities over debt instruments while government refusal to utilise the capital market instruments in financing its operations since 1989 has not helped matters. If the government availed itself of the services of the capital market, its effort at curbing inflation would have been more successful and it would have been able to eliminate deficit financing through

the banking system. The dearth of debt instruments is a major handicap to resource mobilisation for medium and long-term development and this is one of the major challenges of the market and the financial system.

Conclusion

How can we rate the performance of the financial system so far? Based on our earlier thesis, one cannot but conclude that the under-performance of the economy has partly led to the under-performance of the system. In spite of the efforts of banks in deposit mobilisation, the proportion of money supply that lies outside the financial institutions stood at 67.5 percent in 1995 and has increased since then. This shows that the financial system has yet not succeeded in this critical function. In the task of resource allocation, there is also a dearth of medium and long-term finance resulting in small-scale industrialists and farmers being sidelined. Efforts of the government to meet the funding requirements of the real sector through development finance institutions have been crippled by insufficient funds. The capital market is also very narrow, as debt instruments are not traded. There is no doubt that the system will hold and play effective role in the economy given the necessary environmental support. This view is informed by the various attempts by the operators in the system at retooling and getting themselves ready for the challenging times ahead. It is also informed by the awareness and attempts by the various sectors at improving self regulation and elevating the standard of business practice and ethics in their operations.

There are however several challenges confronting the financial system and some of these have been mentioned already. Three of them require serious and immediate attention especially, as they are somehow exogenous to the system. The first challenge is the need for greater stability in the system. This calls for a decisive and irrevocable resolve on the part of government to conclusively address the distress in the system. It also calls for greater surveillance by the supervisory authorities, ensuring that banks

are managed by competent men and women of integrity. It calls for strict adherence to prudential guidelines. This needs a strong Central Bank of Nigeria unencumbered by non central banking functions. As the apex financial institution, its autonomy and authority should not be compromised since its role should not only be to control inflation through its monetary policies but also to ensure a sound and stable financial system.

The second challenge is the development of viable long term savings industry. Key areas of interest are the pension funds and life assurance funds. The state of the insurance industry is all but satisfactory despite efforts by the government to revamp it. The industry is still very fragmented and under-capitalised. If it has to be effective, urgent consolidation in the industry is inevitable.

The need for a bond market in a country like Nigeria can not be overemphasised. Most developing countries have found the bond market very useful in the development of their economy especially their infrastructure. The development of a viable bond market requires the existence of virile pension and life assurance funds because their funds are by their nature long term. The bond market will be of major importance especially to the state and local government in the financing of infrastructure, but an appropriate scheme for mobilising long term savings through pension schemes is a precondition. In doing this, key issues worth considering are:

- the appropriate role of government in the development of long term savings;
- whether savings and participation by employers should be compulsory;
- appropriate legal and regulatory framework for participating institution.

The final challenge is globalisation and the impact of globalisation. The world has, thanks to developments in technology and communication, become a global village. Events in any country spread to other countries of the world with instant rapidity. There

is no more hiding place and no country can afford to be isolated. To pretend otherwise is like playing the ostrich. As the forces of globalisation compel us to liberalise the Nigerian economy and its system – if they are to play by the world rules and standards – several questions come to mind namely:

- How do we harmonise the speed of liberalisation and the development of adequate infrastructure and the framework of our financial system? In other words, how do we sequence the process of liberalisation and avoid premature ‘birth’ as it were?
- How do we ensure the development of the technical and managerial abilities within the system that will cope with the demands of continuous changes in the financial world?

Again, the forces of globalisation is compelling the consolidation of major world corporate organisations in all sectors – manufacturing, automobile and telecommunication industries and especially the financial sectors.

As Nigeria liberalises her economy, these major mega organisations especially in the financial sector will definitely find the country an attractive one to operate in. The issues we face are:

- How ready will we be when that time comes – it is a matter of time?
- What would be the response of the key players in the Nigerian financial system to the challenges posed by the changes in the financial world?
- What will be the response by key players in Nigerian financial system as to the challenges of the mega players? Who would definitely challenge them on their own grounds?

The chapter was based on a paper presented at a Lecture organised by the Chartered Institute of Bankers of Nigeria held in Lagos on October 15, 1998.

Chapter 21

Restoring Confidence in the Nigerian Financial System

Introduction

Restoring confidence in the Nigerian financial system is an issue currently considered to be of importance, particularly as some sections of the industry namely the banking and insurance sectors are said to have been facing some difficulties. This viewpoint presumes that the financial system at one time enjoyed a measure of confidence which has been eroded. The Webster Dictionary defines confidence as “full trust, belief in the trustworthiness or reliability of a person or a thing”. Has the financial system enjoyed any confidence level in the past? If it did, has there been any loss in confidence level? Before attempting to answer these questions it is important to let us identify entities that would naturally require some appreciable amount of confidence levels in the financial system.

- Investing Public – individual/corporate entities that have funds to invest or have potentials for investible funds.
- Government – parastatals, local government, state government, and federal government.
- International Institutions - foreign governments and foreign financial services institutions.

These entities must have assurance or confidence on safety and easy access to their funds whenever they are required. They must

also find the financial system dependable. Having confidence presupposes the integrity of both the system and the players in the system.

Having identified the entities that require confidence in the financial system, it is necessary to identify participants in the financial system. The financial system as it is construed, is made up of the following sectors:

- (i) Commercial banks;
- (ii) Merchant banks;
- (iii) Development banks;
- (iv) Finance companies, and;
- (v) Securities firms (stock brokerage firms).

Although these sectors generally perform the same function of financial intermediation in the economy, it is important to note that their responsibility gradually changed from what it was in the pre-independence era to the current status. Was there any measure of confidence in the system then?

The Structure of the Financial System

Historically the financial sector consisted mainly of the banking sub-sector with the establishment of the first commercial bank in Nigeria in 1892. At that time, the system was shallow and development was slow to come and there was hardly any national policy. There was little patronage from Nigerians as banking in itself was alien to our culture and because local enterprise was rudimentary whereas financial intermediation as always, is a sophisticated business that requires training and high level manpower which were not locally available.

The financial sector was therefore owned, managed and patronised mainly by the colonial masters, their companies or associates. Given that there were some recorded bank failures in the 1950s there was only limited level of confidence in the financial system

by investing public who would rather hold their wealth in cash outside the banking system.

Nigeria inherited a financial system dominated by foreign owned institutions - banks, insurance companies with limited branch network that provided basically short term financing for trade. Existing pre-independence institutions were not set up to provide the type of financing required for a formidable industrial, agriculture and infrastructural base that governments planned to develop. The need for long term investment was acute. To achieve their objective, government;

- (i) nationalised large, mostly foreign commercial banks.
- (ii) set up development banks for industrial and agricultural development and directed the development banks to lend based on subsidy to selected industries.
- (iii) established the rural banking programme to enable the rural dwellers have access to banking services, cultivate the act of banking and benefit from lending from such institutions.
- (iv) directed financial institutions to channel credits to selected priority sectors including agriculture and small scale indigenous business. In other words, the financial system was regarded and used as a tool for economic development.

Effects of Government Intervention and Private Entrepreneurship in the Financial System

As a tool, achieved a measure of success in that banks opened up in several semi-urban and rural towns. Government deficits were funded, credit was channeled to perceived priority sectors and local businesses were funded.

Unwittingly, government intervention in banking laid the foundation for a series of developments whose consequences were to pose a serious threat to the system. Some events that evolved were characterised by:

- (i) rapid injection of political appointees into the banking system to protect “government interest”. Several of the appointees had their personal agenda, were ill-prepared for the challenge while their appointment led to frustration and early retirement of key and dedicated bank workers.
- (ii) attendant disregard for merit and use of political rather than an appropriate risk asset acceptance criteria created discontent at the top hierarchy of the banks.
- (iii) exodus of several top bankers in protest to establish Stockbroking firms, financial consulting firms while those who remained were unsure of their career. The seed of moral decadence in the system had been sown.

Accordingly, those bankers whose jobs were threatened by political decisions by way of retirements began to look outside for new appointments which formed the basis for the well run and efficient stock brokerage firms of the early 1980s that later metamorphosed into banks when private banks were approved by the Central Bank of Nigeria (CBN).

However, ownership of private banks consisted of industrialists, state governments and individuals with divergent interests such as:

- (i) provision of finance for government,
- (ii) provision of finance for their private business enterprises,
- (iii) provision of finance purely on perceived project viability.

The growth in the economy in the 1970s gave great impetus to the Nigerian entrepreneurs who invested in banking, insurance, finance companies etc. A further impetus to private financial services was the Structural Adjustment Programme (1986-93) which involved extensive deregulation. This subsequently opened up some tremendous opportunity for income in financial services through the instrumentation of foreign exchange, interest income

etc. It cannot be over-emphasised that as sole agents (authorised dealers) of the Central Bank of Nigeria in the sale of foreign exchange, the banks reaped such stupendous profits from foreign exchange sales that core banking virtually became an aberration or outright distraction. It was at this period that the system also witnessed an unprecedented growth in the number of banks, insurance companies, finance companies, stock-broking houses of all descriptions. Unfortunately however, this development in number was not matched by a corresponding development in quality.

The Central Bank was continually under pressure to grant more and more operating licences which resulted in a thinning out of competence and technical capacity as qualified staff became few and very expensive. Young men/women began to manage substantial depositors' funds in institutions in which they hardly could serve as senior management staff, the consequences were that the quality of risk assets went on a decline. Despite this trend in asset quality, profits continued to rise because profitability was most synonymous to managerial endowment or technical capacity.

The results of government deliberate policy towards ownership of financial institutions, deregulation etc., had limited success in achieving government objective and failed to create a robust financial system mainly because:

- interest rates on deposits which were below inflation rates resulted into substantial domestic savings not being channelled into financial assets. There was diversion of savings into capital flight and others into physical assets. Thus the financial system remained underdeveloped and small in terms of total assets and undiversified in terms of institutions and instruments.
- undiversified financial assets and shortage of domestic credit and government ownership resulted into government

and its agencies being more favoured in allocation of credit and the consequent crowding out of the private sector.

Current state of Distress in our Financial system

The financial system currently is even more distressed than imagined many years ago. The symptoms of distress are characterised by:

- (i) the near total breakdown in confidence of the investing public due to inability of banks to meet repayment obligations.
- (ii) lack of confidence by the international community, most of which is attributable to country risk, and general perception of credibility of the financial system in meeting obligations.
- (iii) lack of confidence by the operators in their fellow operators namely banks, insurance and stockbrokers. This has arisen because of high default rate in meeting repayment obligations.

It is on record that part of the causes of current distress in banks is due to debt overhang by state governments and government institutions. Some of the chronic debtors in the financial system borrowed to execute government contracts that are yet to be paid for.

It has also become evident that some entrepreneurs who ordinarily ought to serve as watchdog over their investments and those of the depositors scrambled for what appeared to be a free for all largesse. Shareholders and directors of banks abused their position and borrowed money from their banks without any regard to the financial health of these banks. Again boardroom squabbles, litigations and counter-litigations carried the day. All these led to the financial distress of most institutions in the system. It also appeared that monetary authorities were unprepared or incompetent to stop the growing trend of distress that has

eventually devastated the financial system.

storing Confidence in our financial sector

Restoration of confidence in the financial system can be considered to mean establishing a viable and efficient financial system devoid of distress. The following solutions are proffered to achieve the objective:

- (i) Restore the distressed financial institutions to viability by stopping the accrual of unpaid interests, eliminating rollovers and refinancing of non-performing loans and making provisions for bad debts. This will then be followed by a phase of recapitalisation of institution that have eroded shareholders capital; merging to or acquisition by healthy institution and liquidation as a last resort.

The next phase should strengthen the financial infrastructure, improve information systems, review and improve legal framework and review financial regulatory framework.

- (ii) The objective is to have improved knowledge of the market and available choices on investment regarding risk/reward profile. Such information system would depend on good and reliable data from companies which ultimately depend on better accounting, auditing and rules on disclosure of information.
- (iii) The legal system must review and enact laws that give adequate protection for lending and borrowing. This review should be emphasised along the lines of company law, banking and securities law, etc., particularly their ease of enforcement.
- (iv) Until recently, bank supervision has laid more emphasis on the implementation of economic directives of government. Very little attention was paid to prudential supervision, that

is, the quality of loan portfolio, adequacy of capital and soundness/quality of management. There is need to enforce the prudential guidelines to achieve better effectiveness. Reinforcement of prudential guidelines must also take cognisance of recruitment and training of competent staff both in the institutions and by the regulatory bodies. There is little need for banking supervision to get bogged down with government directives such as credit allocation, compliance with such minor things as advertisement which are unrelated to the strategic health of a financial institution.

- (v) In the process of financial intermediation, financial institutions are usually under pressure to profit from high leverage. The owners and managers therefore have an incentive to manage their institutions in a highly risky and fraudulent manner which are the usual factors contributory to failure in most institutions.

Regulators must therefore ensure that adequate controls are implemented and enforced in each of the institutions. More importantly, the integrity of the people involved; shareholders, directors and management of the institutions must be guaranteed.

- (vi) Bank investors and management must return to the old code of ethics which requires operators to be sober and honest. Financial services are not quick return gamble. Rather patience must accompany such investments. The best form of regulation however is self regulation. Hence there is need for a Bankers Association whose main role would be to instil discipline and good business practice in the system. A similar institution will be necessary for each of the various sub-sectors of the system.
- (vii) Just as a sound financial system must have adequate controls, its development depends largely on a sound,

consistent and stable policy environment regarding - interest rates, credit, control policies and such macroeconomic policies on exchange rates and other policies that affect relative prices.

Policy shifts must consider the fact that inflation is a basic tax on those holding financial assets. As the level of inflation increases, there is the tendency for rational individuals to reduce the stock of their holding in financial assets (in order to reduce their tax burden).

Conclusion

Having emphasised the cause of distress in the financial system and ways of restoring confidence, it is important to restate that the financial system remains the key to the success of the private sector, unlike government that can raise funds through taxation. The private sector can only raise funds from the financial sector through the capital market, banking sector, insurance companies and other financial intermediaries to supplement retained earnings which alone would be inadequate to meet private sector needs.

A distressed financial system cannot provide the services required by the private sector and good counsel demands that further steps be taken to restore confidence in our financial system. It is now important for both regulators and operators to determine what sort of financial system Nigeria requires as she goes into the next century. There is need to comprehensively examine the structure of the system to fashion out the one best suited for the country.

Chapter 22

Medium-Term Financing for Projects in Nigeria

Introduction

The issues involved in medium term financing for projects in Nigeria can be approached from the context of its potentials, problems, and prospects. In other words, what are the potentials, problems, and prospects of financing medium-term commercial & industrial projects in Nigeria? Successful promotion of these projects is very essential for the enhancement and sustenance of national economic growth. Such projects create the new capacities for the expansion, modernisation and diversification of the productive sectors of the economy. In the light of the above, one can easily see that the salvation of the Nigerian economy depends to a large extent on the successful promotion of such projects, particularly the small -and medium-scale ones. Every effort should therefore be made to encourage successful promotion of such projects in Nigeria, through the provision of adequate finance and advisory services to the promoters.

Macro Economic Environment for Medium Term Funding

In a market or mixed economy like Nigeria, the mobilisation of funds is the responsibility of the financial sector. It is also this sector that should determine the allocation of the funds it mobilises among the various competing needs of the economy. Success in

fund mobilisation depends on the ability of the financial sector to dissuade savers from immediate consumption by providing to the satisfaction of the economy:

- an effective medium of transaction and exchange.
- earning assets with varying degrees of risk, return and liquidity, (shares, bonds, tenored funds).
- security of savings and tenored funds.
- security in old age in the form of pension schemes and
- comfort or assistance in case of death, physical disability or loss of physical assets due to either foreseen or unforeseen circumstances (in the form of insurance schemes).

From the foregoing, the critical role of the financial sector in the economy does not require any emphasis. However, for the financial sector to effectively perform its role, it must operate in a conducive macroeconomic environment of which it is a part. But what has the Nigerian macroeconomic environment been like in the recent past and possibly up till now?

It can be said without any shadow of doubt that it has been anything but stable. In a period of macroeconomic instability characterised by unstable and volatile relative prices such as interest and exchange rate coupled with high inflation and political uncertainty, long-term funds become practically unavailable to the banking system. In the first place domestic savers shy away from the financial sector except for short term investments mainly of 3 to 6 months (short dated) maximum 12 months duration. In fact, people prefer to trade rather than save in a period of inflation. At best, they invest in real assets or any inflation-indexed asset like equities to hedge against inflation. Foreign investors equally regard such an environment unattractive for investment – both direct investment and portfolio investment. Given the above and in the absence of medium to long-term funds, dependence on the banks to provide medium to long-term funds becomes problematic.

Again changes in the exchange rate of the naira directly impacts on the capacity of the banking system to finance the importation of plant and machinery both for new projects or for replacement of obsolete or worn-out equipments. For example when the rate of exchange of the naira to the US dollar was N4 to US \$1 it only took N4 million naira to fund one million US dollar equipment. When the naira stood N80 to one US\$ funding requirement automatically became eighty million naira for the same plant. Thus the capacity of the banking sector in a situation like this becomes drastically reduced due to the devaluation of the local currency *vis a vis* the foreign currency.

The gestation period for industrial projects is usually more than one year. During the gestation period, the possibility of change in the rate of interest, the exchange rate of the naira, rate of inflation, changes in economic/industrial policy, or even in the political sphere can not be ruled out. Any of these changes could affect the project positively or negatively. For instance, if within the period of implementation, the local currency depreciates, then the cost profile of the project changes and consequently a heavy burden is placed on cost recovery or loan amortization. This could make an erstwhile viable project to become very unprofitable.

Apart from the macroeconomic constraints, there are others that impinge on the abilities of the financial sector to provide funding for projects. These are weaknesses specific to the sector namely: institutional weaknesses. For example the distress in the financial sector particularly in the banking and insurance segments can limit their ability to provide medium to long-term funds for project development.

Other Sources of Medium Term Financing

Government Initiatives

It was in order to overcome these funding difficulties that the Federal overnment set up specialised development instruments

and institutions to provide medium to long term funds for industrial project development. These institutions include, the Nigerian Industrial Development Bank (NIDB), the Nigerian Bank for Commerce and Industry (NBCI), the Nigerian Agricultural and Cooperative Bank (NACB), the Urban Development Bank (UDB) and the National Economic Reconstruction Fund (NERFUND) and Central Bank of Nigeria administered SME programmes. Although over the years, these institutions have made some contributions in the area of medium-term project financing, their effectiveness has been less than desirable. Notable among their problems are high rate of loan default, lack of post – disbursement supervision and technical assistance and others attributable to the instability in the macro-economy.

Given the inability of the banking system to effectively provide medium to long term financing, what other options do industrial promoters have? Basically there are two of them – funding via the capital market and lease financing option.

Lease Financing

Lease financing basically affords project promoters the use of assets without their necessarily owning them. Leasing is typically identified with the project promoters access to the use of specific assets, the consideration being the payment of periodic rentals. These rentals are supposed to cover the cost of the assets and the expected returns to the financiers. Leasing generally affords a financier a less risky exposure since the legal ownership of the assets continues to remain with the financier. Hence the riskier the project the greater the tendency to lease finance rather than granting a loan.

Lease financing gained prominence in Nigeria following the introduction of the Structural Adjustment Programme (SAP) in 1986. The floating of the naira which was an important element of SAP led to a dramatic rise in the cost of imported equipment

and machinery. Many borrowers who had need for medium-term finance, due to their cash flow profile could not accommodate the funding required for outright purchase of such equipment and therefore found a way out in going into asset leasing arrangements.

Capital Market

The capital market option of issuing debenture stocks for financing projects is largely restricted to only those promoters who can float tradeable securities through the Stock Exchange. This is because most investors prefer to invest in only quoted securities. It is hoped that with the various reforms taking place in the capital market, more and more promoters of projects will have access to the required funds via this option.

Prospects for Medium-Term Funds

At first glance, it would appear a grim picture about the availability of medium to long-term funding in Nigeria has been painted in the preceding sections. This grim picture will continue to exist until it is realised that economic development projects cannot and should not rely on the banking system for long term sustenance. It is the capital market that provides such funds and the future augurs well for a strong capital market in the country for the following reasons.

In the 1996 fiscal year, the Federal Government of Nigeria continued with the fiscal policies of 1995 with only minimal changes. This phenomenon restored some sense of stability and continuity in the economy. The economy must stay on course with credible policies over a long period to ensure stability and engender investor confidence. With the retention of this commendable development, projects can now be planned with a greater degree of certainty.

The repeal of the Nigerian Enterprises Promotion Decree 1989 and the Exchange Control Act of 1962 and their replacement with the Nigerian Investment Promotion Decree No. 16 of 1995

and Foreign Exchange (Monetary and Miscellaneous Provisions) Decree No. 17 of 1995 is another welcome and positive development. The investment climate in Nigeria has been positively impacted by these decrees and increased investor participation in the Nigerian capital market is expected. Besides, improvements going on in the Nigerian Stock Exchange will ensure efficient and speedy operations as well as the effectiveness of the Exchange.

Real interest rates must be positive to promote investor interest in medium-term loan stock issues. Thus efforts to tackle inflation through greater fiscal discipline and the appropriate pricing of foreign exchange also augur well for the corporate bond and debenture market.

Furthermore, the Federal Government's plan to securitize its domestic debt should alleviate the economic depression and free up funds for investment in existing and new projects. Finally, the on-going effort by government to solve distress in the financial system, evolve a virile capital market, the impending democratisation of the political process should help restore stability in the macro economy and engender an investor-friendly environment.

In conclusion, every effort must be made to remove the barriers to the successful funding of medium-term projects in Nigeria. Only hard work and determination to undergo what it takes to earn success can ensure this. Again small and mid-sized businesses which find access to medium-term financing most difficult need to consider and address quickly issues such as broader ownership, introduction of professional management and improved record keeping, and credit integrity to boost their acceptance in the medium-term debt market as well as have unfettered access to lease financing opportunities.

The text was originally delivered as an Address on the Occasion of the 5th Anniversary Celebration of C & I Leasing Plc on July 16, 1996.

Chapter 23

Supporting Growth Initiatives in the Telecommunications Sector: Role of The Nigerian Financial Sector

Introduction

An advertisement in a recent edition of *The Economist* captures the essence of the relationship between the telecommunications and finance industries. The advertiser, a Swiss-American investment bank informed readers that:

Talk isn't cheap. In fact, it can cost billions. Because almost any venture in telecommunications takes capital, insight and performance ...

The message concluded by drawing attention to the \$40 billion in new debt and equity raised by the advertiser for its telecommunications clients. With this in mind, this chapter describes briefly:

- the role of finance sector in the economy;
- the importance of telecommunication to the finance sector;
- the main participants in the telecommunications sector;
- the scope of telecommunications use in Nigeria.
- the finance sector as a contributor to the growth of telecommunications;
- policy environment and growth.

Finally the chapter makes recommendations in accordance to future development.

The Role of the Finance Sector

The key participants in the Nigerian finance sector are commercial banks, merchant banks, development banks, community banks and mortgage banks. Others are the non-bank financial institutions such as insurance companies, insurance brokers, finance companies and securities firms. The Nigerian financial system allows commercial, community and mortgage banks some limited degree of participation in retail banking, while other institutions are involved in either wholesale banking or development banking. The business of financial intermediation is regulated by the Central Bank of Nigeria.

The role of the finance sector remains largely that of financial intermediation with responsibility for the country's socioeconomic growth and development. Over the years, this responsibility has been carried out with a measure of success, though not without some shortcomings. By nature of the structure of their deposit liabilities, which is short term, the financial sector's loans are essentially of short-term nature. The structure is reinforced by the instability of the economy which does not encourage medium/long term lending which explains why insurance companies hardly lend long term in Nigeria.

The finance sector facilitates the channelling of savings into capital investment to enhance economic growth. Therefore by providing capital, the finance sector acts as a catalyst in the actualisation of scientific, technical and engineering advances for building, modernising and expanding infrastructure.

The importance of Good Telecommunication to the Finance Sector

The use of effective telecommunication for the provision of an international level of service in banks is capital intensive and

requires insight and performance. For the purpose of clarity, an efficient and effective financial system is one where there is unimpeded access to internal or external information, for decision making. It means ease of availability of timely, undistorted information at affordable cost in such a way that value is added to the business in the use of the information. Local experience indicates that use of telecommunications for efficient and effective financial system involves one or more of the underlisted:

- (i) leased lines from NITEL,
- (ii) fibre optic network,
- (iii) radio spectrum or transmission system.

The benefits of good telecommunications are as follows:-

- Facilitates availability of undistorted information for use by decision makers in the financial system on an on-line-real-time basis. This would be particularly useful for financial institutions which operate a multi-branch network. With adequate information system backed by telecommunication in place, information is readily available that would enhance flexibility, convenience and optimal decision making.

Banks' investment in the creation of wide area networks connected primarily by leased circuits is indicative of a lucrative market for telecommunication services. Bank branches are able to communicate data with their head offices and other branches through private leased line facilities for voice and data transmission. This process results in minimal frustration, client satisfaction and improved profitability.

- ***Control***

In terms of control, availability of information from the company's entire network on an on-line-real-time basis to top management may deter the urge to carry out financial

malpractice as this may be identified. The system also makes for easy budgetary control and consolidation of accounts.

• *Reduced Overheads and cost*

A combination of information system and telecommunication usually results in reduction in head count and costs of some infrastructure. This is because the information system would normally process a series of information at a cheaper cost within a shorter time than would ordinarily be carried out manually.

Good telecommunications system is also vital for the rapid expansion of the financial system to the urban and rural areas as the general overhead costs may be substantially minimised due largely to reduction in headcount, easier access to information and attainment of manageable financial controls.

• *Effective Clearing System*

A good telecommunications system would enhance an effective computer-based inter-bank funds transfer system. For instance such a system in Lagos, (which could feature a leased circuit communication system between the Central Bank of Nigeria and the organisation charged with providing settlement services) would enable major branches of banks in Lagos to trade among themselves and with discount houses in effective transfers and payments for same day settlement.

The Central Securities Clearing mechanism now in operation in the Nigerian Stock Exchange is aimed at meeting transaction settlement requirements of capital market operators. However, security concerns about such integrated systems should be given important considerations.

Key Participants in the telecommunications Sector

Key participants in the telecommunications sector consist of a group of firms engaged in the manufacture, maintenance, marketing of equipment and services used in communication over long distances through the following media.

- telegraph
- telephone
- television and radio

The basic forces of change driving growth in the industry have been the numerous technical and scientific advances in modern times. These include:

- The growing numbers of orbiting communications satellites that carry video, voice and other streams of information.
- Digitalisation of transmission and switching systems in national telephone network.
- Commercial adoption of fibre-optic cable networks and their related technologies.
- Miniaturisation and other advances in computing together with the integration of digital and wireless technologies into telecommunications systems.
- Development of technologies that permit even more intense use of the radio spectrum in transmission systems.

This discussion is not concerned with the details of the issues mentioned. But the purpose is to note the manner in which these technical factors have impacted on the range of services and therefore the opportunities available in the sector.

The common thread uniting these is the fact that they have led to expansion in the range of services available to consumers; reduction of unit costs and improved the capacity of telecommunication networks to disseminate voice, data and other information. It is not surprising therefore the volume of information flowing between people both within and between

national frontier continues to record quantum leaps.

Telecommunications use in Nigeria

Table 23.1 presents selected data on the main telecommunications services available to the Nigerian public between 1988 and 1992. The data confirms that in Nigeria as elsewhere; telephone services are the dominant communications mode.

TABLE 23.1: Telecommunication Services Available to the Public Between 1988 - 1992

	1988	1989	1990	1991	1992
Telegraph messages					
International	15,094	76,663	387,353	10,905	7,444
Domestics	377, 155	280,526	239,992	47,670	53,043
Telephone calls:					
International (minutes paid)	14,076,987	19,936,060	38,202,757	15,506,521	52,615,660
International (call units)					
Domestics (call units) by subscriber	1,865,681	3,014,493	4,349,386	2,799,129	8,453,206
unassisted	942.744,362	1,595, 291,638	1,285,370, 381	1,013,567.5 62	1,588,591, 502
Operator assisted	12,238,005	2, 718, 174	1, 671,435	2,424,720	2,040,926
Telex:					
International	360,057	1,015,974	1,079,125	152,957	1,114,894
Domestic	45,494,352	4,929, 515	38,874,871	31,833,039	26,647,569
Phone sets	317,916	483,496	492,204	497,975	353,027
Telex sets	5,898	8,500	7,402	9,282	7,329
GDP at 1984 factor cost (billion naira)	78.1	83.7	70.6	94.7	98.6
Contribution by Communication sector to GDP (billion naira)					
	0.25	0.25	0.26	0.25	0.25
FG Capital Expenditure on communications (million naira)	468.3	553.1	426.9	451.8	349.3
Total CAPEX by FG (billion naira)	8,340.2	15,034.1	24,929.5	29,286.2	38,453.0

Source: CBN Annual Report & Statement of accounts year ended 1992 based on data from NITEL & NIPOST

Note: Capex = Capital expenditure

It would be observed from the data that telegraph usage has declined steadily from a peak of just over one million messages in 1989 to just 60,987 in 1992. Telex usage in terms of call units was 45,854 million in 1988 compared with 27,762 million in 1992. The trend in both cases has been downward, although with regard to telex use demand has fluctuated widely, most likely due to a variety of economic and technical factors.

On the other hand, domestic and international usage of telephones has risen consistently. The only exception was in 1991 when users rationalised demand in response to a large increase in charges by NITEL Plc.

The data reveals that telephone usage in terms of pulse units rose from 956.8 million units in 1988 to 1.599 billion in 1992. Interestingly, the total time spent by Nigerian telephone users on international calls was the equivalent of 608.9 days in 1992 compared with 162.9 days in 1988.

The Finance Industry as a user of Telecommunications Services

In Nigeria, there is an added dimension to the relationship between the two sectors. In recent years financial institutions have become major consumers of value-added telecommunications services. With the increase in the number and types of financial institutions in the economy, many have been compelled to invest heavily in computerisation to achieve greater levels of productivity, efficiency and product/service differentiation.

In another vein, financial service companies have been among the early converts to mobile telephone services despite the seemingly high price paid for access to this service. These companies demonstrated a remarkable willingness to maintain contact with their staff for official purposes by providing access to cellular telephones as part of their commitments to the pursuit of enhanced productivity. Banks' investment in the creation of

wide area networks connected (primarily by leased circuits in Nigeria) is underpinning a new market for telecommunications services. Bank branches are able to communicate data with their head offices and other branches through private leased line facilities for voice and data transmission.

However, to achieve optimum performance, a lot still has to be done to improve on the estimated 60% down times across various networks. This would arise through further investment in infrastructure to attain optimum performance. In the near future it is envisaged that the banking industry would be ready to commence with a computerised telecommunications based inter-bank funds transfer system. Already, work is progressing on a computerised inter-bank funds transfer system. To be based in Lagos, one that could feature a leased circuit communication between the Central Bank of Nigeria and the organisation charged with providing settlement services. The first phase of the project will permit key branches of banks in Lagos to trade among themselves and with discount houses in effecting transfers and payments for same day settlement.

If adopted this system should lay the foundation for reducing delays experienced in inter-bank payments in the country. In the long-term, there is the expectation that transaction volumes may justify adoption of leased line connections between various classes of financial institutions to integrate the payment system more closely. Resolving concerns over security of these integrated systems will be important considerations.

A discourse on this subject would not be complete without mention of the central securities clearing mechanism established to meet the transaction settlement requirements of capital market operators, namely: The Lagos Stock Exchange and stock brokerage firms.

The way forward

The preceding section examined how telecommunications services have expanded as a result of technological advances. The pace of economic development continues to stimulate more intense use of telecommunications infrastructure while at the same time generating demand for better quality and wider availability of services.

Unlike more developed economies, the rate of absorption of emerging technologies in Nigeria remains fairly low. Banks and other financial institutions have a role to play in accelerating adaptation of these new technologies. There are a number of pre-conditions which need to be met. These may be summarised as follows:

- (i) The political establishment must resolve the question of policy inconsistencies and frequent precipitate reversal in the implementation of established policy directions.
- (ii) Present uncertainties over the framework and content of macro-economic policy must be overcome in a way which reconciles the development aspirations of Nigerians with the expectations of foreign investors and Nigeria's trading partners.
- (iii) Investment horizons must be extended beyond the short-run by the financial sector. A situation in which major private sector investment projects are considered only if payback periods can be measured in months is inimical to meaningful economic growth.

Political Factors

After years of some semblance of market oriented reforms, the de-regulation of interest rates and the foreign exchange market has imposed new constraints to doing business in Nigeria. Investor interest has ebbed substantially as a result. There appears to be

no lasting consensus on the economic parameters by which the Nigerian economy is run. It is obvious that this is a matter that must be placed on the nation's political agenda. The political leadership must come to terms with the understanding of the repercussions of their populist actions that cannot support economic growth and development. This has from foreign investors point of view imposed considerable political risks on investments in Nigeria.

Investment Horizons

Unlike the situation in other economies, short-term investment horizons are the result of policy instability. Nigerian investors are therefore constrained to recoup their investment outlays within the shortest possible time. This objective is frequently pursued at the expense of the long-term viability of many projects in both the public and private sectors.

It must be said that banks and other financial institutions are subject to the same tendencies in their lending and investing behaviour, otherwise they would cause severe liquidity crisis. While banks are willing to provide long term financing, bankers are constrained by the demands imposed by the investing public.

Until the investing public demonstrates a willingness to provide long term deposit, it would be imprudent for the financial sector to fund projects on medium/long term basis without facing a liquidity crisis. The onus is therefore on government to provide an enabling environment for stability in the political and economic environment.

Conclusion and Recommendations

It is clear that a vibrant and properly functioning telecommunications sector will complement the financial sector if participants therein are to achieve desired levels of efficiency, productivity and customer satisfaction. In the spirit of

deregulation, and to achieve optimal resource utilisation it is recommended that government should consider providing tax incentives to encourage financial institutions to lend to the telecommunications sector.

The relevant authorities may also enact legislation to encourage a framework within which the financial sector could obtain short-term liquidity by trading medium/long term instruments based on their portfolio of credits granted in support of medium/long term infrastructure projects. With this it is expected that long term funding would be made available to the telecommunications sector.

The present structure continues to deny consumers of telecommunication the benefit of economies of scale. Indeed, it is generally believed that the fees for cellular phones and certain fees charged by NITEL are amongst the highest in the world. One hopes those concerned would correct whatever anomaly that may exist as this would impact on the subscription for telecommunications services, their cash flows and therefore ability to meet repayment of loans from the financial sector.

It is an indisputable fact that a genuine partnership exists between the telecommunications sector and the financial sector considering that financial services serve as consumers of telecommunication services and the sector also plays the role of intermediaries in raising capital for telecommunication ventures. On the other hand, the telecommunication industry is a key consumer of banking services.

The original text was presented at the Seminar on "Towards the Rapid Expansion of Nigerian Telecommunication Industry" held in Lagos on June 22, 1994 .

Chapter 24

Banking in a Developing Economy

Introduction

In discussing this topic, a number of questions can be posed as a prelude. Is the concept of development practically (or even if literary speaking) a finite concept? If so, are there indicators or parameters which determine a developed, developing, or under-developed economies? Does it mean, for instance, that if the United States of America or even Italy is described as developed, then such economies have reached any such limit in development as may be prescribed for such economies - that is, if the concept of development were a finite one? If it were a finite one, does it follow that the frontiers of development as seen in all practical respects, cannot be extended? The concept of development is a continuum and possibly cannot be subjected easily to finite consideration.

In resolving the issues, it is convenient to resort to common usages (or what may be referred to as a layman's interpretation) in assuming that the term "developing" would mean the Third World countries and the lesser developed economies elsewhere, excluding in this respect, the major European economies. Since all such economies can not be covered at the same time, Nigeria has been chosen as model for this discourse.

In choosing Nigeria as a model, a number of factors have been taken into consideration. Nigeria has remained to date, one of the most developed economies in Africa and has, in achieving

this status, undergone a number of developments which would capture fairly well the essence of this topic - Banking in a developing economy. The frequent (if not phenomenal) changes experienced in the direction of economic policy in the country coupled with the turbulence that has resulted from the implementation (or is it non-implementation?) of economic policies would also provide a useful model for studying the role of banking in a developing economy.

The discussion begins with a historical perspective with a view to highlighting key developments in the banking sector at various stages of Nigeria's development up to the present time.

As a matter of priority and to provide sufficient focus on recent developments in the country, a section is devoted to the Structural Adjustment Programme [SAP] and some responsibilities which the banks have had to shoulder under this dispensation. The reason for this is not far fetched. At no other time in the history of Nigeria has the banking sector witnessed the quantum of change recorded since 1986 when a programme of structural adjustment was introduced.

This chapter also highlights a few policy changes and initiatives which are considered necessary not just for the banking sector but for the entire Nigerian economy. The concluding part of this chapter provides an insight into the future of banking in Nigeria.

A Historical Perspective to Banking in Nigeria

The evolution of banking in Nigeria dates back to the colonial era when in response to the needs of transnational organisations and the financial transactions of colonial government some sort of structure had to be put in place to enhance the goal of financial intermediation during those years. Considerable impetus was also given to this need by the declining role of the barter system as a facilitator of monetary transactions.

This led to the establishment of a Lagos branch office of the African Banking Corporation based in South Africa in 1892 at the invitation of the Elder Dempster Shipping Company. In December 1892, the bank was registered in London with an authorised share capital of 100,000 pound sterling by the Bank of British West Africa. It was followed in 1899 by the Bank of Nigeria established by the Royal Niger Company. Yet another bank, the Colonial Bank commenced operations in 1917 with an office in Lagos. Four years after its establishment, it had set up fifteen branches in West Africa.

One feature of banking during the period was the obvious and near-total dominance of the economy by expatriate firms and the colonial government. Under this dispensation, local businesses suffered considerable neglect, affecting, in the process, the ability of the local entrepreneur to contribute meaningfully to the economic development of the country.

Expectedly, this led to the establishment of indigenous banks in the country. The first such establishment came on stream in 1929 and was called the Industrial and Commercial Bank, although it went into liquidation about a year after owing primarily to inadequate capital and bad management. The world-wide recession of that era (now better known as the Great Depression 1929-1933) also contributed to its woes. Other indigenous commercial banks followed, including the Nigerian Mercantile Bank (1931), National Bank of Nigeria (1933), the Nigerian Farmers and Commercial Bank (1947), the Pan Nigerian Bank (1951).

All through this period, a number of features were obvious. These included the very poor capitalisation of the banks particularly the indigenous ones, dearth of expertise and the absence of basic infrastructure, among others. It was therefore not surprising that by 1954, twenty-one of the twenty-five indigenous banks had collapsed. The need for a framework of regulating control led to the first banking legislation in Nigeria – The Banking Ordinance of 1952, following the recommendations of G.D. Paton, an official

of the Bank of England. This Law defined licencing rules and procedures, prescribed prudential requirements in the form of minimum capital requirement, liquidity requirements and maintenance of reserves. It also introduced banking supervision.

Although the Banking Ordinance had its salutary effects on banking practice in the country, its stringent controls, including minimum liquidity, was too difficult for the indigenous banks to cope with. There was no central bank until 1958 and the Ordinance did not empower the financial secretary of the colonial government – the administrator/enforcer of the Law – to assist distressed banks in liquidity problems through the extension of some form of life line. Expectedly, this had its effects on the indigenous banks. One such consequence was the high failure rate among these banks. Only the African Continental Bank (ACB), National Bank and Agbonmagbe bank (now Wema Bank) survived this period.

It is indeed a lamentable paradox that the Ordinance which sought to sanitise the banking industry through the provision of a framework of rules was, practically speaking, not so much in favour of indigenous commercial banking. The exit of the indigenous banks by the late 1950s reinforced the dominance of the domestic economy by the foreign commercial banks.

With the problem of capital adequacy at the root of the problems that faced the indigenous commercial banks, it became necessary for the government to move into the banking sector with the hope that the emerging financial institutions would be better capitalised. The then Western Region government acquired the National Bank and Wema Bank; the African Continental Bank was, in the same vein, acquired by the former Eastern Region and, by succession, the states that inherited the region's assets on the creation of states at various stages of the nation's political development.

Other state-owned banks came in quick succession. It has to be stated the nearly every new state that was created at various stages of Nigeria's politic development sought to establish its

own commercial bank. For one reason, all of them believed that ownership of such banks or access to their resources was crucial to the economic development of their states.

Although this may be true to some extent, it was equally apparent over the years that state involvement in banking led to unnecessary interference in the running of such organisations. It is common knowledge that a good number of the liquidated or distressed banks today are state-owned ones which over the years had granted loans and advances which today are non-performing.

The Role of Banking in a Developing Economy

In addressing the issue of what role banks play in a developing economy, one is tempted to feel that their functions are not different from what obtains in other parts of the world. Indeed, banks all over the world perform the same range of functions. However, the differentiating factors include the scope and dimension of their operations which has a direct relationship with the level of development of such economies. In this respect, a whole gamut of considerations including the level of infrastructural development, literacy and educational development, extent of development of the local money and capital markets, regulatory environment, among others, would impact on the nature of banking in a particular economy.

The banking industry would therefore be expected to play the age-long role of facilitating economic development in a developing economy like Nigeria. However, as a subsector of the financial system, it plays predominant role compared to the other operators in the system, acquiring as a result the strength of the most significant role player. It is this enormous strength that has further lent credence to its acceptance as the most potent set of financial intermediaries through which governments of most developing countries seek to implement a whole range of monetary and fiscal policies.

At this point, it is important to assess the extent to which banks have accomplished this role. Looking back to the time when the first commercial bank was established by the Elder Dempster Line in 1892, it is obvious that considerable contributions have been made by the banks to the development of Nigeria. The area of most significant contribution has been in the finance of industrial and commercial projects.

Aside from the direct lending functions, banks generally have continued to contribute to the implementation of most government economic policies. This is particularly so for Nigeria where the government relied a great deal on the banks for the implementation of its structural adjustment policies.

It is important here to give a brief overview of these policies in order to put in proper context the role which the banks played during the Structural Adjustment Programme era. Over the years, the Nigerian economy particularly in the years following the country's independence in 1960 was a mono-product economy relying mainly on petroleum and allied products. The lopsidedness was evidenced by the fact that over 90% of the country's export earnings came from this source. The need for the diversification of the country's resource base was not recognised and was indeed compounded by the obvious neglect suffered by other sectors of the economy particularly agriculture. It became apparent with the turbulence in the oil market in the late seventies and early eighties that something drastic needed to be done to arrest the deteriorating situation. Consistent drops in the reference price for crude oil in the international market led to declining reserves. Excessive dependence on imports over the years which had led to the neglect of other sectors could not be sustained by available external reserves.

The resulting balance of payments difficulties became so aggravated that the Structural Adjustment Programme had to be introduced. This policy package sought to address a number of

problems namely the over-valuation of the naira by allowing the market forces to determine the exchange rate; excessive government involvement in nearly all sectors of the economy through a programme of privatisation, restrictions on free trade through a programme of trade liberalisation; excessive subsidy of public services and goods through the removal of such subsidies; diversification of the nation's export base through a range of policies aimed at encouraging non-oil export, etc.

Under this dispensation the banks played a crucial role in the evolution and implementation of these policies. Clearly the most prominent role was in the foreign exchange market where as the main operators, they contributed to the overall efforts aimed at addressing the issue of finding a realistic exchange rate for the naira.

Along with other financial intermediaries, the banks also made significant contributions to the privatisation programme which to date remains the greatest singular effort by government to encourage private sector initiative in the country. In a similar vein, banks have made and continue to make contributions to the export of non-oil products. Nearly all banks in the country have export finance departments with a clearly defined focus on non-oil export.

Another crucial policy area where the banks have played a significant role is in the debt conversion programme which is part of the overall government package aimed at addressing the excruciating foreign debt problem.

Problems

Having highlighted some of the roles which banks have played in the Nigerian economy, it is equally important that attention is given to the equally important issue of the problems that face them. This, would provide the contextual framework within which to appraise the performance of these institutions. If there is any factor which differentiates banking practice in a developing

country from that of a developed economy, it is the environment within which they operate. For the developing economies, it is an environment fraught with problems and restrictions which unfortunately affect the quality of service delivery. In a country like Nigeria, these problems are numerous and some of them are highlighted below.

Level of Infrastructural Development

Expectedly one shortcoming associated with most developing economies is the absence of necessary infrastructure needed for development. In most of these areas, there are no good roads, power supply is largely erratic (and this is particularly so for Nigeria), the telecommunication system is anything but reliable, the quality and availability of housing development is unfortunately low with the few fairly good accommodation available only in the urban centres, the state of transportation infrastructure is abysmally poor, among others. Under these circumstances, banks have to commit substantial funds to the provision of infrastructure thus limiting in very significant terms, resources available for other aspects of their operations. The result is enormous overheads for these institutions and this has direct consequences for the performance of their key role as financial intermediaries.

It is pertinent to note here that the problem of infrastructure has been the greatest obstacle to the provision of banking service to most of Nigeria's rural economy. Even at the time when it was compulsory for commercial banks to establish branches in the rural areas under the Central Bank of Nigeria's Rural Banking Scheme, the problem of infrastructure was recognised as a fundamental setback to the programme. Commercial banks that complied did so at substantial costs and for members of staff who were posted to such locations, the dearth of suitable residential accommodation was probably the greatest disincentive they had. As would be expected, the problem associated with the level of infrastructural development has also manifested in the absence

of a wide network of branches and this has meant a curtailment of the banking system's ability to effectively mobilise rural savings.

Resources lost to this problem have remained idle and largely unproductive in such rural areas. It is equally not surprising that basic banking habits are absent in such communities. Admittedly, this has had grave implications for the Nigerian economy which has continued to miss the significant contributions which its rural population (and they are in the majority) could make to its development.

Level of Automation

Banking in Nigeria continues to be done in a largely manual environment. Although there has been significant strides towards acquiring modern technology, only a few banks have attained the level of automation comparable to what is found in Europe and the Americas. Diamond Bank Ltd. has probably the most sophisticated banking automation package in Nigeria. The absence of an automated banking environment has greatly affected the overall efficiency of the banks, and their ability to discharge their role as financial intermediaries. For instance, Electronic Funds Transfer can only be found in only a few banks leading to a situation where businessmen are forced to carry cash running into millions of Naira from one place to another. Needless to say that such transactions have been fraught with risks ordinarily not associated with banking in the developed world.

Low Capitalisation

Another problem which has remained central to the discharge of the role expected of banks has been the issue of capitalisation. The capital base of a bank should determine the volume of business it can take on.

According to Nigeria Deposit Insurance Corporation [NDIC], of the 65 commercial banks, only 16 were able to meet the minimum N50 million paid up share capital requirement as at end of

December, 1991, representing about a quarter of insured commercial banks. And for the merchant banks, only 15 out of the 54 such banks in operation had met the N40 million requirement as at December 31, 1991.

Available statistics show that in aggregate terms, the total paid-up share capital of commercial banks stood at N2,342.21 million as at the end of 1991 as against N1,823.9 million in 1990. For the merchant banks, total paid-up share capital was N1,485.88 million at the end of 1991 as against N895.1 million in 1990. For the 65 commercial banks and 54 merchant banks, these figures translate to average capitalisation of N36 million for each commercial bank and N27.52 million for a merchant bank.

By the conventional guage, these figures are grossly inadequate. A bank would need financial resources to enhance its overall ability to discharge its roles and generally maintain its competitive advantage. In the generally acknowledged words of the NDIC, adequate capital sustains the volume, conditions of assets, character of banking business and profitability. In addition, banks need adequate capital to accommodate future growth and cushion potential losses arising from bad loans or disappointing interest margins. Unfortunately, this is not so for most Nigerian banks, thus affecting their overall ability to discharge their responsibilities within a developing economy.

Implementation of Monetary and Fiscal Policies

A core issue which has been at the root of the problems confronting Nigerian banks is the absence of official commitment to the implementation of monetary and fiscal policies. Over the years, the country has continued to record cases of fiscal indiscipline of monumental proportions on the part of government. For instance, in 1991, when government set out to achieve a modest budget surplus of N100 million, it ended up with a deficit of about N20 billion in the first six months. For the first six months of 1992, it was the same story with the deficit at about N17 billion.

Most of these deficits were recorded via extra budgetary expenditures by government with serious implications for the control of inflation.

Unfortunately, the banks were at the receiving end in nearly all efforts made to solve the problems associated with such deficits. Through the compulsory issuance of stabilisation securities to the banks, the Central Bank of Nigeria sought to withdraw money from the system and always in the process sent the banking system into panic with money market rates going up to as high as 90%. One consequence of this measure was that it constrained the ability of the banks to lend to viable projects and institutions. It equally introduced uncertainty into the system thereby forcing the banks to concentrate on the short end of the market where, they imagined, they were in a better position to curtail interest losses arising from the frequent introduction and compulsory issuance of stabilisation securities.

Absence of Credit Lines from International Financial Institutions

One consequence of the debt crisis which hit most developing countries was the withdrawal of credit confirming lines by international financial institutions. Quite logically, the failure of most developing economies to redeem obligations as they fell due has led to abysmally poor credit rating by international financial institutions and an erosion of confidence in such local economies. Credit lines which banks generally earn on account of confidence reposed in them were denied most financial institutions in the developing world, and where extended to them, such lines carried stiff conditions.

In terms of effect, the absence of such facilities negatively impacted on the ability of local banks to consummate international trade transactions. To that extent, the development of domestic business (and a good number of them rely on imported materials) was hampered.

Manpower Constraints

A crucial aspect of Nigeria's Structural Adjustment Program (SAP) was the deregulation of the financial system. Associated with the deregulation was the creation of opportunities within the system necessitating the entry of more banks, finance houses and other financial institutions into the economy. The number of commercial and merchant banks nearly doubled during the SAP era. This development led to a fierce competition amongst the banks and other financial institutions for qualified personnel. There was a dearth of technical and skilled manpower coupled with high staff turnover in the industry. While the deregulation of the financial system engendered the spirit of competition, the situation in the labour market as it related to the hiring and retention of qualified personnel had fundamental implications for the effective management of these institutions.

The qualification mix and experience profile of the staff of merchant and commercial banks gave the operators a cause for concern. The analysis in Table 24.1 shows the distribution of staff by qualifications in both commercial and merchant banks in 1991. Amongst the commercial banks, only 747 (1.8%) out of 40,679 staff possessed professional qualifications such as ACIB and ICAN (Nigeria's equivalent of ACA); 3794 (9.3%) of the staff possessed university degrees. Only 4541 (11.2%) of the total staff strength had university or professional qualification and could be described as highly skilled. About 65% had WASC/GCE while another 15% had no qualifications.

In the merchant banks, 10.4% of the staff had professional qualifications, 34.7% had university degrees and this category of staff accounted for the highest number of staff per category. Other analytical details are as given in Table 24.1. The observed disparity between commercial and merchant banks appear to be consistent with the banking practice in the sense that commercial banks require more supportive staff (less skilled manpower) than the merchant banks which depend relatively on highly skilled

manpower for their more specialised services.

TABLE 24.1: Qualification Mix of Staff in Commercial and Merchant Banks in 1991

S/No	Qualification Mix	No. of Banks		No. of Employees		% of Staff Total	
		Comm. Bank	Merchant Bank	Comm. Bank	Merchant Bank	Comm. Bank	Merchant Bank
1.	Professional (e.g. ACIB/ ICAN)	25	31	747	472	1.8	10.4
2.	University Degree	25	31	3,794	1570	9.3	34.7
3.	Professional Diploma (e.g. OND)	24	28	3,805	557	9.4	12.3
4.	WASC/GCE	25	30	26,256	1360	64.5	30.1
5.	No Qualification	20	22	6,077	560	14.8	12.4
	Total			40,679	4519	100.0	100.0

Table 24.2 shows the experience profile of the bank staff. Whereas 13,529 or 45.5% of commercial bank personnel had over ten years experience, only 14.3% of those in merchant banking had a similar length of experience. Other details are as provided in Table 24.2.

TABLE 24.2 Experience Profile Of Bank Staff

Bank Type	No. of Banks Rendering Information	Total Staff	Working Experience					
			No. of Staff above 10 years	%	No. of Staff 3-10 years	%	Less than 3 years	%
Commercial Banks	24	29,742	13,529	45.5	10,273	34.5	5,940	30.0
Merchant Banks	31	4,191	601	14.3	1,940	46.3	1,650	39.4
Total	55	33,933	14,130	42	12,213	80.8	7,590	9.4

Concluding, the implication of the statistics are obvious. There is a dearth of well qualified and experienced hands in the banking industry and this negatively impacted on the quality of service. With the emergence of the mortgage finance institutions, a good number of skilled personnel was lost to these firms. This development definitely aggravated an already bad situation.

The Future of Banking in Nigeria

This part of the chapter is presented in two sections. The first part deals with some issues which would have to be considered if banks in Nigeria are to meet the challenges before them. Thereafter, a case for international support and co-operation is made as banks face the future.

• *An Agenda for Change*

The productivity of any institution and the extent to which assigned roles are discharged depend largely on the environment under which it operates. If the right conditions are not there, then goals would definitely remain largely unattained. This is particularly so for the developing world.

Banking is currently practiced in an environment of odds. If banks must continue to play their roles as expected, then the governments of developing nations must redouble their efforts at providing necessary infrastructures for their operation. Administrative bottlenecks and excessive and largely unwarranted regulatory controls must give way to free market rules and considerations. To engender the required change and provide the necessary impetus for economic development, the following conditions must prevail:

- All governments in the developing world must evolve deliberate policies aimed at improving the level of infrastructural development in their respective economics.

Available local capital must be channeled towards providing social and other amenities/infrastructure which would stand the test of time. The current practice of putting up structures whose benefits are felt for only a number of years must be discontinued;

- The movement towards stable democracy must not be compromised and there is need for everyone to now realise that the messianic role assumed by the armed forces over the last two decades in a number of developing countries is totally uncalled for and does not engender international confidence in such economies. It is pertinent to note that the lack of confidence in such countries has been the greatest deterrent to the flow of international investment capital to these nations.
- The tendency towards excessive regulation of local economies must give way to market forces.
- The local financial system of all economies in the developing world should be subjected to periodic reviews and studies aimed at enhancing overall efficiency of such markets through the identification of those factors that continue to obstruct real economic development.
- All professionals in the developing economies must now resolve to have their various businesses run in accordance with generally accepted business principles insisting in all instances that their professional independence is not compromised for any reason.
- Institutional structures must be evolved to ensure the independence of the central banks and other monetary authorities in the developing economies.

- ***A Case for International Support and Co-operation***

The developing economies taken together constitute a very significant part of the world economy. In an integrated world economy where linkages and relationships exist between one part and the other, it is almost certain that developments in any part of the world would definitely affect, to a lesser or greater extent, all other economies.

A realisation and appreciation of this relationship would almost certainly be necessary in facing the challenges before banking in the developing economies. There is an overriding need for support. and co-operation and this can be translated in a number of ways:

- International financial institutions must readdress the issue of extending credit lines to their sister institutions in the developing economies as a means of enhancing international trade and finance. Such criteria as paid up share capital (in Dollars) could be adopted in determining maximum exposure to banks and other financial institutions in the developing economies. The current practice of ensuring that cash collaterals are booked for most transactions involving banks in these countries, even though prudent, should start giving way, even if marginally, to those transactions in which trust and confidence in the local banks are the prime considerations. For instance, revolving credit lines up to the tune of the paid up share capital could be extended to such institutions;
- Another area where international financial institutions could be of assistance is in the area of manpower training and support. Bilateral agreements with local banks in the developing economies in the area of training would help such local institutions in obviating the problem of inadequate personnel;
- International financial institutions could also play a role in

ensuring the independence of local central banks by putting in place certain parameters of independence. While not encouraging interference in domestic economic policies, some steps could be taken on an international basis to ensure that central banks in developing countries remain independent and that breaches of fiscal and monetary policies by governments are controlled. If such a structure is set up, cases of fiscal indiscipline which have remained a serious setback to the implementation of sound economic policies could be checked.

Conclusion

The developing economies of the world are going through trying times and what they need is a compassionate consideration of their case. The banking sectors of these economies provide probably the most organised institutional framework through which support and cooperation could be channelled to these nations. This chapter has examined some of the critical problems with some forward looking proposals for the elimination of the problems.

Chapter 25

The Nigerian Payment System: The Role of the Banking Industry

Introduction

Every society, including a primitive one, has a payment system. A payment system can be defined as the mechanism for the settlement of personal and business transactions, both nationally and internationally. Actually, the payment system is the most ancient and thus important part of the financial system. Various forms of payment system were developed for several centuries in an evolutionary pattern. The evolutionary nature of the payment system makes it the most challenging facet of the financial system.

As in all innovations, the dictum – necessity is the mother of invention – is best illustrated in the evolution of any country's payment system. The inability to produce everything needed led to the evolution of barter trade. The problem of knowing the worth of one item in terms of a completely different one led to the evolution of cowries, shell and their likes. The problem of durability and universal acceptance led to the preference of precious metals – gold, silver, etc – as means of payment over cowries and shells. The problem of insecurity made it a problem to use gold and hence the evolution of paper money. The gold smith who issued gold deposit receipts later transformed into a

bank. Due to importance of banks and the need to supervise and regulate their activities central banks were established. From then henceforth the banks took over the task of developing the payment system to cope with various problems.

The most important operational issues in evaluating the efficiency of any payment system include speed of settlement, convenience and reliability. Cash payment system is generally fast and reliable but not convenient when the amount is large. Non-cash payment instrument, such as, cheques, drafts etc, are convenient but not fast and sometimes not reliable. On the other hand electronic payment system is fast, convenient and reliable.

In this chapter an appraisal of the role of the banking industry in Nigeria in developing the payment system in the recent past is made. First an over view of the Nigerian payment system emphasising the use of currency notes and coins and its associated problems. This is followed by discussions of the role of banks in improving the payment system. The discussion dwells extensively on the features and problems of the various paper-based and electronic payment instruments developed by banks in their efforts toward developing the payment system. In conclusion some suggestions on the way forward have been proffered.

An Overview of Nigeria's Payment System

The Nigerian payment system has witnessed a series of improvements since the introduction of naira and kobo to replace the British (Nigerian) pound in 1973. The encouragement of banks to open branches all over the country also increased the use of cheques and other bank instruments. The development of various means of payments is not restricted to the banks alone.

Local currency in most countries is the only means of payment, which has the guarantee of the government and is thus regarded as legal tender. It is the most reliable and fastest means of payment. Although the risks of using it are enormous, people are not deterred

from using this system of payment because of their confidence in it. The implication of the popular use of currency is therefore that confidence (reliability) in a means of payment is more important than convenience.

In Nigeria, just as in many developing countries, the preference for the use of currency is evidenced from the extent of currency outside the banking system. Also the proportion of cash payment to total volume of transactions is high. For example the ratio of currency outside the banking system to money supply was persistently higher than 60% since 1990. The proportion of cash-based payments in the total system is estimated at above 90% since 1990. This mainly explains why strikes and political crisis leading to bank closures do not significantly disturb the payment system.

Apart from convenience and speed, other factors that led to the preponderance of the use of cash for settlement in Nigeria include the following:

- (i) Low level of literacy – only about 50 percent of Nigerians are literate.
- (ii) Restriction of banking services to the cities and towns only – 70 percent of Nigerians live in rural areas.
- (iii) Inefficient banking system – the long queues in banking halls and long cheque clearing period has discouraged the public from using cheques.
- (iv) Distress in the banking system – the existence of distressed banks in the system has robbed it of public confidence.
- (v) Lack of enforcement of enabling laws on the misuse of banking instruments.

The use of currency carries the greatest risk and cost. Among the risk element is the possibility of being attacked by armed robbers. There is also the risk of fire, once currency is destroyed by fire or any other thing it cannot be replaced.

There is also the problem of tracing lost funds. If cash is missing one can hardly trace it. On the other hand, a lost cheque can be traced or even stopped.

The lifecycle of the naira notes is very short compared to coins or even other country's currency notes. Given the high inflation and exchange rates, and poor banking habit, the volume of cash dealings has great impact on the resources of the Central Bank of Nigeria. A situation in which it takes almost two notes of the highest denomination (#50) to exchange for one note of the smallest denomination (\$1) of another country puts a lot of stress on the economy. This stress is felt at three levels as follows:

(i) At the Printing Level

Due to the large volume of notes to be printed, the Nigerian Printing and Minting Company has been under pressure to provide adequate infrastructure for printing, storing and moving currency notes. It also has to provide effective and efficient security network for safeguard.

(ii) At the CBN Level

The CBN has been trying to cope with the cost of printing and minting large volume of currency. The cost of handling cash, in terms of space, personnel, security and movement has been enormous. This has been compounded by the involvement of the apex bank in retail operation.

The high level of inflation coupled with the low denomination and short lifecycle of the naira notes have made the cost of sorting worn-out notes so exorbitant. This led the CBN to take the drastic measure of charging #3,500.00 per box of unsorted money, to force banks to acquire sorting machines. The attempt of some banks to pass this cost to the customer has so far been resisted.

(iii) At the Retail Banking Level

At the retail banking level, the increasing volume of currency notes have caused a significant amount of stress. The key concerns of banks include the following:

Coping with volumes of cash deposits/withdrawals requires very large banking halls. Most conventional banking halls are not designed to handle this type of activity. This constraint is either resolved through further investment in additional space for banking hall or left with the undesirable delays and queues in the lobby.

Related to the above is the requirement of large cash vault. In addition there are also huge costs of carrying idle cash, including the related insurance cost. The latest major threat to the banking industry is the CBN policy of the acquisition of note sorting machine. A medium size model of this machine costs over #7 million, and can sort only #8 million per day! Since a top bank branch in a major city receives a minimum of #50 million a day, it is impossible for all the money to be sorted. Since sending unsorted cash to the CBN attracts a charge of #3,500.00 per box, some banks resorted to charging customers #3.50 per leaf or in the alternative post-dating their cash lodgements above a certain amount. Other banks, however, resorted to moving their cash from branches with surplus to those with deficiency, thus exposing themselves to greater risks of bank robberies both in transit and at terminal points.

The significant volume of cash handled by commercial banks makes it impossible to test for counterfeit, deliberate mixture of different denomination and shortages. Most often counting machines breakdown due to poor quality of notes and result in inaccurate figures. Perhaps one of the biggest issues confronting commercial banks with respect to naira notes handling is the staffing requirements and equipment costs. Some banks have even set up a whole department just to handle their cash.

The Role of the Banking Industry

The banking industry actually came into being because of the problems associated with the use of cash, most of which are outlined above. But various cash substitutes have since been developed as a first step in solving this problem. The instruments introduced at each point in time try to improve on the qualities of those in use before. The first set of instruments introduced by banks is the paper-based instruments, such as cheques, drafts, etc. With the development of technology, and the identification of various problems associated with the use of cheques, various electronic instruments were introduced to cater for one problem or the other. The role of the banking industry can thus be said to be that of continuous innovation to solve all incipient problems of the payment system.

Several paper-based payment instruments have been introduced by banks in Nigeria to solve some of the problems identified with the use of cash. Some of these instruments include the following:

- ***Personal cheques***

Personal cheques have limited acceptance as a medium of payment in Nigeria for the following reasons:

- Cheques are not legal tender.
- Lack of trust amongst Nigerians.
- Ability of the drawer to stop the cheque.
- The death or bankruptcy of the drawer can deprive the beneficiary of his right to the money.
- Frequent cheque frauds.
- Delays in cheque clearing systems.

- ***Certified Cheques***

To mitigate the problems associated with personal cheques, banks on behalf of the customers issue certified cheques. The banker by so doing takes over the liability to pay. Third parties

therefore accept certified cheques, because of the banker's involvement.

However, today's bankers no longer certify customers' cheques but issue their own cheque at a fee on behalf of the customers, hence the introduction of bank cheque, cashier's cheque, manager's cheque, bank draft and banker's payment.

The use of bank paper-based instruments is facilitated via the establishment of a clearing system. There are two clearing systems in operation in Nigeria: the intra-bank clearing system and the inter-bank clearing system. At the inter-bank clearing house, banks settle themselves via the netting system in which net debit or credits are posted to the account of various banks. The intra-bank clearing system is one in which cheques drawn on other branches of a particular bank are cleared and paid at another branch of the same bank. Each commercial bank, as well as, the Central Bank of Nigeria has its own internal clearing system.

The shortcomings and abuses of the inter-bank clearing system include:

Long clearing time: A major shortcoming of the clearing system in Nigeria is the lengthy settlement periods to which payments are subjected and the absence of an integrated network for swift transfer of funds. The clearing days in Nigeria are 4 working days for a local clearing, 8 working days for inter-state clearing and 12 working days for inter-state (up country) clearing. These are rather too long and they constitute restraining factors on economic development and expose participants in the funds transfer mechanism to considerable liquidity risks. The long clearing duration can easily be abused through drawing on unfunded account with the hope of funding the account when the instrument has been presented for payment. Some customers had, in this manner, used banks' money to build themselves up. It is rather sad and unfortunate to note that some banks abused the system

in the past. The suspension of Broad Bank and Republic Bank early in 1994 was mainly caused by such an abuse of the clearing system.

Manual Operation: Another drawback of the present clearing system in Nigeria is that it is essentially manual and paper-based with all the attendant risks. Other abuses of the clearing system include the use of fake/forged instruments. Irregular crossing which may lead to an instrument being dishonoured but meanwhile funds have been obtained and used. Diversion/interception of clearing documents when instruments do not reach the paying banks such that after the collecting bank had exchanged the instrument at the clearing house and obtained value, the instrument may be sorted to a wrong bank.

The intra-bank clearing system also faces the same problem as the inter-bank system. It takes even longer period for cheques drawn on an up-country branch of some of the less efficient banks to be cleared. This problem is compounded by the fact that, unlike the inter-bank system where there is a unified house and only net balances are posted, in this system cheques are cleared individually. The system has also been severely abused by branch managers who give value to cheques drawn on another branch and leave the debit to hang in their inter-branch suspense account.

The problems of both the inter-bank and the intra-bank clearing systems are being tackled at three fronts. These are:

- **Automation of the System**

Inter-bank Clearing: The Magnetic Ink Character Recognition (MICR) project is designed to modernise the processing of cheques and other paper-based payment instruments. Some degree of automation has already been achieved with the procurement of MICR equipment by banks. The phased implementation of the MICR project has not been very smooth owing partly to frequent equipment failures and partly

to the lack of will among some banks to see that the project succeed. However, the need to physically transport payment instruments, given the inadequacies of the transport system, still constrains the objective of reducing the settlement periods.

Intra-bank Clearing: Some banks in eliminating the problems of their internal clearing system have made a lot of progress. Most banks have acquired on-line, real-time banking software, which enables access to customer's account and verification of signature at any branch. In addition, this software allows for a payment system popularly known as Electronic Fund Transfer (EFT). This is a payment system in which the instruction to pay a beneficiary is passed to the paying bank/branch through electronic means, that is, a computer. The transfer is fast as it is instantaneous.

Though EFT is gaining grounds in Nigeria, the rate of growth is hindered by poor communication network. The degree of sophistication also varies from one bank to another depending on the type of software used. For example, while Diamond Bank Limited and FSB International Bank PLC offer on-line real-time services, other banks are only on-line but not real time.

The CBN Internal Clearing System: Unfortunately, while commercial banks are making good efforts to resolve the internal clearing problems, the Central Bank of Nigeria appears to be left far behind. It is painful to say that while a customer can lodge money in Diamond Bank Limited, Abuja branch and get it paid immediately in Lagos, it will take CBN Abuja branch about three weeks to transfer the amount to CBN Lagos for investment in treasury bill. Hence, Diamond Bank Limited has effectively ended up giving a free credit to the customer. This problem can best be understood if one studies the banks annual accounts. As at the end of its last financial year it had #2.5 billion in transit from one CBN branch to another. This is not just a case of one particular day but on the average there is no day it did not have at least #2

billion trapped within the CBN internal clearing system. On an annualised basis, the bank would have lost over #240 million income due to CBN's inefficiency last year. This story is the same for most highly liquid banks.

- ***Alternative Settlement System***

The Nigerian Inter-Bank Settlement System (NIBSS) was established by the Bankers' Committee to minimise bottlenecks, uncertainties, settlement delays as well as delays in providing banks with confirmation of final exchange of value for sensitive high value transactions. The company, which commenced operations in June 1994, is expected to complement CBN's clearing and settlement systems. The NIBSS is expected to improve the efficiency of the payment system as it would entail same-day clearing and settlement of high value inter-bank transfers and payments. The NIBSS was set-up to use only paperless instruments, although paper-based instruments are still in use. It will be premature to talk of the effectiveness of the system in reducing or eliminating inefficiency and risks associated with the clearing system in the country.

- ***Strengthening the Legal System***

In a bid to deal with the high incidence of dud cheques and encourage wider use and acceptability of cheques, the CBN in cooperation with the Bankers' Committee sponsored the promulgation of the Dishonoured Cheques (Offences) Decree No. 44 of 1977 and the Bankruptcy Act of 1979. Only recently, the Failed Banks (Recovery of Debts) and Financial Malpractices in Banks Decree No. 18 of 1994 was promulgated to deal with the problem of fraud and bad loans in failed banks. These laws are aimed at sanitising the banking system and restoring public confidence in the system.

To solve or minimise the problem associated with the use of both cash and paper instruments, most Nigerian banks have been working hard to develop alternative payment methods which are based on highly-sophisticated technology. Banks have developed these instruments to protect and increase their market share, to reduce operating cost and to generate new sources of income through commission. Some of these instrument include the following:

- ***Automatic Teller Machine (ATM)***

This is a cash-dispensing machine, which has the capacity to stand-alone and deliver cash to authorised persons, thus reducing queues in the bank halls. However, poor infrastructure base hinders the success of these machines in Nigeria. The machines work best where the base banks are real time on-line, such that customer's accounts are updated automatically after each ATM operations. In Nigeria today, three (3) banks; First Bank, Societe Generale and Equity Bank are operating the machines in their bank branches and some outlets.

Plastic Money/Card

The latest development in payment system is the growth in plastic money/card. It is called plastic money/card because it is a plastic card but has gained acceptance as medium of payment. There are various types of plastic money but those that can be found in Nigeria include credit cards, cheque guarantee cards, cash cards and smart cards.

- ***Credit Cards***

Credit cards give the cardholders the ability to buy goods and services on credit up to a personal credit limit. The period of repayment and interest is chosen by cardholders subject to minimum monthly repayment. Current account customers are provided with credit limits and a credit card. These cards have

raised numbers on them in order to identify the customer's account, the card's expiry date and name of customer. Credit cards serve two purposes:

- Provide credit for card holders.
- Provide means of repayment for goods and services.

In Nigeria, credit card transaction is limited to New World Express Card issued by New World Investment Limited, a subsidiary of New World Merchant Bank.

– *Cheque Guarantee Cards*

In order to facilitate the acceptance of cheques as a means of payment, it has become necessary in the advanced countries for banks to issue cheque guarantee cards to their creditworthy customers, which are presented and sighted by the beneficiary at the point of issue of a cheque.

In Nigeria the use of cheque guarantee cards is still very limited. Only Union Bank of Nigeria Plc and United Bank for Africa Plc have introduced their Unicard and Ubacard respectively. However UBA has replaced Ubacard with EASYCARD with the following limits; N1,000; N2,500; N5,000; N10,000; N25,000; and N50,000. And Union Bank is currently repackaging their Unicard to make the limits more realistic.

The purpose of a cheque card is to guarantee payment to the recipients of the cheque up to a prescribed limit provided the card number is written on the back of the cheque. However in Nigeria, the cheque cards are hardly used outside the issuing bank branches. Thus it only serves as a means of obtaining express service to the limit of the card.

– *Cash Cards*

Cash cards are used to obtain cash from ATM dispensers. Thus it is also called ATM cards. Only those banks with dispensers

currently issue them in Nigeria and they include First Bank, Societe Generale and Equity Banks.

– Smartcards

Smartcard is the latest development in card technology. It is so called because it carries a semi-conductor chip which enables it to store data. It usually comes with a card reader, which enables the holder to know his balance, as well as past transactions.

In Nigeria Smartcards are already gaining grounds through Allstates Bank's ESCA and Diamond Bank's Paycard. The coming together of some banks in Nigeria through SNP to establish Smartcard-based electronic purse (The Valuecard) will therefore revolutionise the Nigerian payment system and the economy.

Conclusion

In concluding this discussion, it is imperative to draw attention to three key factors that will affect any attempt at eliminating the problems of the Nigerian payment system. These are: strengthening the legal system, improving the security system and modernising the banking system. The strengthening of the legal system will affect the willingness of people to accept non-cash instruments as means of payment. It will also minimise the incidence of fraud, and other forms of malpractice. The security system should be improved so that the people could be easily identified and traced by the police. This will make law enforcement more effective as offenders will have no hiding place. It is also important that the quality and security of the currency notes be improved. It is believed that one of the problems of having naira notes of high denomination is its propensity to encourage counterfeiting. However, if the security and quality of the notes could be improved this could be mitigated. Lastly, the efforts of the CBN and the NDIC in ensuring safe and sound banking system in Nigeria by their sanitation should be commended. The banks are also investing significant amounts of money on the acquisition of

modern computer software, hardware and even satellite communication equipment. These efforts will no doubt improve the efficiency of the payment system and have a significant effect on the level of economic activity.

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Chapter 26

Entrepreneurship in Banking: Initiatives and Innovations

Introduction

Elementary economics tells us about factors of production among which is entrepreneurship. The various factors of production are by themselves of little significance unless they are properly harnessed or organised for a common purpose. As labour is rewarded with wages and land gets rent, the reward for the organiser of productive factors - the entrepreneur – is profit.

The most important single objective of a firm, irrespective of what line of business it pursues, is profit maximisation. Indeed, this objective of the firm is simply a reflection of the motives of those behind the firm. Every entrepreneur bears the risk attendant to his line of business. He takes the profit and bears the loss. The risk of loss and the joy of profit combine to act as a motivating factor for the entrepreneur to put in his best to ensure the success of his enterprise. He explores new, cheaper and better ways of doing things in the business and ensures that the interest of the business is protected at all times. His capital and the contributions of his associates (depending on the nature of the business which could be a joint stock company or sole trader) are at risk and his primary concern is to protect the firm. Profit is the joy of entrepreneurship.

The business of banking is not different from any other business as far as the objective of profit maximisation is concerned.

Entrepreneurs who decide to invest in manufacturing do not have a different objective from those who decide to invest in banking. In short, while the culture and ethics may vary among industries, the entrepreneurial spirit and the expectations of those who harness production factors for rewards are practically the same.

Some pioneer manufacturers in Nigeria went into business in response to the call for import substitution industrialisation of the 1960s. Others did so to give vent to their pet ambitions of producing goods that should replace foreign products and, by so doing, help the national economy towards a steady growth. A lot more did so just for the reward of profit. In all cases, the expectation of profit is the bottom line of business undertaking, even in such a noble field as banking.

Development of the Banking Sector

The Nigerian bank industry has come a long way from the days of the Bank of British West Africa. It has experienced growth, success, failure and now is going through a shake-out. Since the establishment of the first commercial bank in Nigeria in 1892, a number of developments have occurred which together propel private individuals to seek entrepreneurial opportunities in banking.

Prior to independence, the Nigerian banking system was rather shallow and development was slow to come. For instance, it took a period of close to 25 years for only two banks to be established between 1892 and 1917. The system was at its embryonic stage and there was hardly any national policy in this sensitive area of the economy.

The only semblance of a monetary authority – i.e. the Central Bank of Nigeria, was established only in 1959. By that time, the total number of banks operating in the country was eight. There were neither resources for, nor interest among local people in banking as a business. The establishment of the Central Bank of

Nigeria in 1959 however marked the beginning of a new era as three new banks were set up in that year alone.

The reason for the slow growth is not far fetched, as the main objective of the banks at the time was to serve the trading needs of the colonial masters. Besides, local expertise was rudimentary and banking, as always, is a sophisticated business that requires training a high level manpower which were not locally available.

The Era of Rapid Growth

The post-independence era witnessed a rapid growth of the Nigerian banking system. With the establishment of the Central Bank of Nigeria, the take-over of political power at independence and the encouragement of local enterprise, a lot of opportunities opened for banks. By 1989, the total number of banks had risen to 89 with considerable branch network. By the time its expansion peaked around 1991, there were about 120 banks in the country. While the rural banking programme of the Federal Government is acknowledged as a major source of the explosion in branch network and the rise in banking awareness, especially among the rural people, the profit motive, more than anything, fuelled the rapid growth of the sector.

The Nigerian Government introduced the Nigerian Enterprise Promotion Decree in 1972 which was intended to give Nigerians what was termed “control of the commanding heights” of their economy. While prescribing various levels of foreign and local participation in industrial sectors, it allowed the government to buy into the foreign banks operating in the country. This led to the acquisition in 1975, of 40% equity interest in the three major banks in the country at the time. It gave government some say in the affairs of the banks.

This stake was raised to 60% in 1977 with the reclassification of banking business under Schedule Two of the 1977 Enterprises Promotion Decree. This was applied to the three big banks and

the other foreign banks. That singular act turned the banking sector into a semi-arm of the government with the attendant control of key positions by government appointees. The industry was on its way to a crisis which crystallized by 1980 into so many effects, some of which turned out to be harmful to the sector.

The Dawn of the Private Banking Era

Government intervention in the banking industry had many advantages to the national economy. It was the first clear evidence of economic empowerment of the Nigerian people in their own country. Prior to this effort, Nigerian businesses were discriminated against by the leading foreign banks. Local businesses were made to look unbankable thereby stunting the development of local business and initiative.

Moreover, the interest of the economy was subordinated to those foreign interests behind the banks. Monetary and fiscal policies were difficult to enforce with the divergent interests of the banks and the government. There was need to harmonise these objectives and put the economy on a growth path. Thus, government was hopeful to influence the conduct of banks with regard to set national objectives through the indigenisation decrees. To a large extent, this has been a positive development.

Unwittingly however, government intervention in banking laid the foundation of a banking development whose consequences today may be good or bad depending on one's viewpoint. The rapid injection of political appointees into the banking system to "protect government interest" led to frustration and early retirement of key and dedicated bank workers. The attendant disregard for merit and the elevation of political rather than credit criteria in bank operations created discontent at the top hierarchy of the banks. As a result, several top bankers left in protest to establish stock-broking firms, consultancies and the like. Those who remained were unsure of their career. The seed of moral decadence in the system had been sowed.

Accordingly, those bankers whose jobs were threatened by political decisions by way of retirements began to look outside for new opportunities. This was the origin of the many well-run and efficient stock-broking firms of the early 1980s that later metamorphosed into banks when private banking was allowed. Indeed, the first generation of entrepreneurs in the banking industry were mainly people seeking to give their former employers a run for their lives as a revenge for either being forced out, retired prematurely or denied deserved promotion.

The Private Banking Boom

Privately-owned banks have been on the increase since 1979. These banks were established by Nigerian businessmen often with the technical support of foreign banks who were allowed to hold up to 40% of their equity. Like any entrepreneur, these bank investors had their eyes on the considerable business opportunities that the growing economy offered. In a growing economy with a large and rising population, the opportunities open to banks can only be imagined. This gave great impetus to the Nigerian entrepreneurs who invested in banking.

A further impetus to private banking was offered by the introduction of the Structural Adjustment Programme in 1986. This programme which involved an extensive deregulation and decontrol of the economy opened large income sources, through the instrumentality of such ideas as the Foreign Exchange Market (FEM) etc., to the banks. As sole agents of the Central Bank of Nigeria in the sale of foreign exchange, the banks reaped such stupendous profits from foreign exchange sales that core banking virtually became an aberration or outright distraction.

Government was therefore continually under pressure to grant more operating licences. The result was a thinning out of competence and technical capacity as qualified staff became too few and very expensive. Young men began to manage banks in which they hardly could serve as senior management staff. The

standards began to fall. But because the income of banks, at that time, had nothing to do with their technical capacity or managerial endowments, profits continued to rise. As long as foreign exchange was being sold, any bank could be profitable. This created a facade of strength and depth which indeed were lacking in some banks, especially the merchant banks. The banks were indeed under pressure.

Erosion of Banking Ethics

In some cases, the entrepreneurs, who ordinarily ought to serve as watchdogs over their investment and those of the public, began to scramble for what appeared to be a loot. Boardroom squabbles ensued and litigations were rampant. Thus, of all motives that may have propelled individuals to go into the business, the desire for the largest share of profits seemed to outweigh the rest. This desire, sometimes, snowballed into greed that has left both depositors and shareholders wondering what has become of banking ethics.

Also, it appeared for a moment that the monetary authorities were either jealous of the success of the banks or were downright incompetent as they hit the banks with stabilisation securities at such rate that the present parlous state of banks could be the only likely end result.

Under the guise of deregulation, coupled with pressure from intending investors in banking, operators of the regulatory framework had dished out licences to all manner of people, provided their internally set “criteria” were met. The stage was set for a repeat of the failures of the 1950s. Today, the distress syndrome which has devastated the banking sector has led to a near complete destruction of the national economy.

With the decree on the failed banks and asset recovery, it has become a curse to work in a bank because as they say, the sin of the fathers are being visited on the children. The errors of the

1980s bankers are being called up today for punishment. It is no longer safe to sign off on a credit appraisal because the loan, no matter how well intended, may still go bad and appraisers will be held responsible.

Similarly, borrowers are scared stiff of borrowing because no matter how good their intentions may be, if the political situation makes the loan go bad, they are in trouble. Banking business – lending and borrowing – is therefore on the verge of extinction. Bankers themselves have become endangered species. There is need for caution. All solutions to the problem must have one thing in common: the preservation of investors' confidence in the industry. A banking system in which depositors do not trust their banks is living on borrowed time.

Prospects for Recovery

What is currently happening in the Nigerian banking system is not unusual and has even happened before. The current failure and distress which are being witnessed do not necessarily mark the end of the noble industry. If anything, they serve as reminders of the past mistakes, and bankers worth their calling, should use the developments to strengthen their future performance. Much will depend on the handling of the problem.

There is no doubt that the entrepreneurial spirit, as far as banking is concerned, has taken a bashing. However, the following lessons have to be noted:

- (i) Banking business requires not only the contribution of large capital by investors but a technically sound management must be in place for the bank to succeed;
- (ii) Boardroom squabbles which may go unnoticed in certain fields of business usually become major life-threatening issues if they occur in banks because of the sensitive nature of the industry;

- (iii) Unlike certain industrial ventures those who seek enterprise in banking must be people with some depth in the business of banking;
- (iv) An efficient and honest supervision system is inevitable for the industry to survive;
- (v) Investment in banking is not a quick return gamble and patience must accompany such investment;
- (vi) Unless bank investors and management return to the old code of ethics which requires bankers to be sober, humble and honest people, the sanctity of other people's funds in the bankers' care may be lost and with it, the soul of the industry; and
- (vii) The struggle for political power and the recurring instability at points of political succession will continue to claim the banking system as first casualty, hence the need for a system that minimises the contest for power at the national centre.

Innovation and Creativity

Every banking institution is supposed to have its own culture, distinct image and strong points in the technical area. Such cultures and self-perception which must be internally consolidated, form the bases of any meaningful external projection of the bank. A discernible corporate culture must be established and driven home both internally and externally.

It is on the basis of such established norms and practices internal to a bank that specific innovations are made. If a bank projects the image of an export financier, it is most likely that it will seek technology to enable it further excel in and better serve the export market. Similarly, a bank that wishes to be known for quick and efficient service delivery also seeks manpower and technology in this area. The era of baseless claims of efficiency and reliability are permanently over. Every bank must earn its existence through quality service.

Similarly, every banking institution must invest in training and technological development as these are the basic requirements of innovation. In a changing environment such as that of banking, only those who seek avenues to meet the rapidly changing needs of their clients have any hope of remaining in the business.

Conclusion

The Nigerian banking system is currently going through trauma. It is, however, to be noted that this development is not unusual. Those investors who went into banking solely for quick returns may soon find out that an industry so sensitive as banking cannot be an all-comers affair and that banking demands a certain level of integrity both from board and management. A return to the old ethics of conservatism and probity will do a lot of good both to those who are staking their entrepreneurial ability in banking and the nation at large. This passing phase of distress can, indeed pass, depending on how well it is managed.

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Chapter 27

Banks, Bankers and Perceptions

Introduction

In the past few years, despite its contributions to the economy, the Nigerian banking industry has continuously recorded some harsh criticisms from several key quarters of the country such as government, regulatory authorities, the private sector and members of the public. These criticisms border on the roles and responsibilities of the banking industry and the need to attain the expected level of ethical standard towards the society's good.

Indeed, the banking industry is perceived to be the main cause of the hardship that have beset Nigerians. While it is a natural expectation for bankers to be on the defence, they have a moral obligation as responsible professionals to probe these allegations and critically evaluate the situation by posing the following questions to themselves:

- Why is the banking industry so perceived?
- Are these perceptions true?
- What is the banking industry doing to correct this poor image or is it satisfied with this perception?

Background

It would be recalled that in an effort to deregulate the financial sector commencing in the 1980s, government through the Central Bank of Nigeria eased certain entry barriers to enable prospective

entrepreneurs start new commercial and merchant banks and finance companies.

As these “new banks” emerged, competition set in on various fronts for current accounts deposits, and foreign exchange related transactions with the banks poised to achieve profit expectations of stake holders and top management in the very short run by all possible means and at all cost. The situation was however not helped by the high level of ambiguity relating to policies, incomplete information, multiple points of view and obvious conflicting responsibilities within the socio-economic and political system which made it difficult to establish plans beyond the short-term horizon.

The entire level of apparent planlessness, inconsistency of policies and, of course, the effects of the unpredictable foreign exchange regime individually and collectively beclouded decision makers, resulting in socio-economic tension and stress on all fronts. The consequence of the above was the desire by some to use all sorts of tactics to attain success within the short term.

Role of Banks

Despite the foregoing, the expected role of banks and finance companies remained and still remains mainly that of financial intermediation with responsibility for the country's socio-economic growth and development. Over the years, this responsibility had been carried out with a measure of success though not without some shortcomings. Indeed, whatever the country has achieved in the field of socio-economic development, the banking industry has played a considerable role in that achievement.

It must also be recognised that during the period of the Structural Adjustment Programme of the Federal Government, the nation's economic management had relied heavily on demand management through the implementation of various monetary policies. Banks performed their expected role as agents for the implementation

of these policies as prescribed by the Central Bank of Nigeria. They responded as best as they could to the needs of the economy despite the turbulence and uncertainty in the financial system. It is worthy of note that banks also fulfilled part of their social responsibility to the country in compliance with the regulations of Government by setting up branches, although sometimes reluctantly, in the rural areas in the past, even though these branches were not that viable.

Thus, a sincere appraisal of the extent of contribution of the banking industry towards national economic development would indicate they have been very considerable and that banks had provided opportunities to several Nigerian entrepreneurs. For this, the industry deserves a lot of commendation. However, in spite of the enviable role and their enormous contributions to economic development over the years, banks have image problem. Why is this so? What are the causes of this uncomplimentary public perception?

The poor image problem of the banking industry could be attributed to the following reasons:-

- banks' seeming desire for ultra-large profits;
- intense competition within the industry;
- ostentatious living and flamboyant life style of bankers;
- frequent boardroom squabbles and sometimes physical combats between board and management;
- frauds and sharp corruptive practices by bank officials;
- tendency by banks to aid corruption and/or indeed corrupt officers in other non-bank industries;
- corruption by individual operators and the industry as a whole; etc.

It is bad that the perception exists but worse because the problem snares not just a few mature criminals or crooks in the making but a host of professionals of good character and men and women of integrity who lead exemplary private lives.

How much of these accusations are founded and how much is not? Could banks' role and position as an interface for the implementation of government's monetary policies (some of which are defective and harsh) be responsible for the public's mood and perception towards bankers? Are the bankers for example, to be held responsible for the emergence of "wonder banks" and subsequently for the perpetuation of fraud and scam? Who is actually to blame? Is it the society whose gullible masses have exhibited obvious preference for quick returns, greed and materialism?

By their important responsibilities in the economic setting, banks and bank operators are naturally visible in the society. They have even become visible in the Nigerian economy because a substantial aspect of the implementation of government monetary and other policies which do have effects on the macro economy and the public, depend on banks as an interface for their implementation. Even where government's monetary policies are defective, the banks through which they are implemented are usually unfairly accused. Indeed to most Nigerians, the continued devaluation of the Naira, the escalating inflation and the sometimes unbearable interest burden are all attributed to the "wicked machinations" of banks and bank officials.

Again, there is a need to recognise the inconsistent demand of the society. As a depositor, the average Nigerian demands the highest rate of interest possible. As a borrower, he demands the minimum rate possible. Indeed, as a depositor, most Nigerians have become greedy and gullible. The gullibility and greed by depositors have resulted in the creation of opportunities for emerging "wonder banks" which have records of the perpetuation of frauds and scams. Definitely the wonder banks would not have achieved "successes" if members of the society abhorred greed and gullibility.

Competition in the Banking Industry

As described in the background, that reference was made about more intense competition since the deregulation of the banking sector. Competition is tied to extremely ambitious profit objective as set by shareholders and this has put individual bank executive (hopefully of good integrity) under immense pressure to surge ahead. The individuals are tempted to pursue advancement at the expense of others; to cut corners and seek to win at all cost and make situations seem better than they are in order to take advantage of the society's myopic evaluation of performance.

Under this scenario, the responsibility for the shortcoming may be identified as the customers' and society's absurd profit criteria for bank performance evaluation and the pursuit of maximum immediate profit objective of shareholders. In trying to meet this expectation of both shareholders and the society, profit maximisation and high dividend payouts have become the main objectives of a bank.

It should be appreciated that management would do what they are rewarded for doing, moreso when quantifiable results of managerial activity are much more visible than the quality and future consequences of the means by which they are achieved. Here again, the banks are in a no-win situation. Undoubtedly, there are industries in Nigeria that record higher profits than the banking industry but attract no attention of the public. In situations where bank's profits appear excessive in the face of dwindling economic fortunes of other industries, banks often complain about the hostility to their profit by the public. Could it not be that the industry and its operators directly or indirectly attract this hostility by their actions?

Quality of Staff

Whilst competition and desire to achieve set short-term profit objective remains a norm in the industry, there had been societal

pressures on management and directors to hire certain individuals into organisations without due regard for establishment of the proper character and background reference.

Because of poor selection, a few bad apples with fraudulent tendencies, greed and poor moral values have shown up in the industry. Although the activities of these corporate misfits are not restricted to the banking sector, their impact on the banks can easily be felt in great magnitude due to the peculiarity of the industry. The situation is not helped by the society's declining moral standards at the homes and at educational institutions. In a country where corruption assumes exotic guises, a consensus about moral values is hard to achieve and maintain. Again, the problem is compounded given the selfish and self-centred streak of some and the slightly over-bloated ego of others in the industry.

There is need also to address the issue of invasion of the industry by traders. This is partly due to the issuance of banking licences to many opportunists who, rather than carry out the financial roles expected of a bank, use the huge depositors funds at their disposal to trade on their own account. There is no gainsaying it that the motive for banking licence by this group of "investors" is a desire to achieve short-term profit objective irrespective of the potential risks to depositors' funds. No wonder the industry gained notoriety for frequent boardroom quarrels arising partly from dissatisfaction amongst board members regarding their share of potential benefits from holding such positions when their banks are perceived to be making good profits.

It is generally believed that the ethical standards and the level of good business practice in the nation's financial institutions are very low. The intensity of corruption and unethical practices within the industry is assuming some alarming proportion amongst individuals in banks, top management and directors. Confidentiality, hitherto a hallmark of the industry, is threatened while there is growing lack of trust and inability of banks to honour their commitments.

Ethics in our Environment

While the issue of corrupt and unethical practices abound in Nigeria, one usually is asked the question – Are banks the most affected in the society? Do banks have the means to stop it? Is the issue only relevant to the banking industry? Would banks survive without it?

The obvious answers notwithstanding, bankers have an image problem. Although the problem abound in the society, because bankers are very visible due to their peculiar circumstances, they attract the most attention.

Shaping the Remedy

The problem of ethics appears intractable but it can be solved depending on how groups of banks or individual banks examine its implications on their operations. Whether the collapse, of ethical standards and good business practice as an unchecked epidemic in the industry or as hydra-headed is appreciated, leaders in the industry have the responsibility to establish a trend towards focusing on the social impact of their actions on the society through good business practices and conduct that must be factored into today's managerial decision making.

In pondering over the issues raised so far, perhaps it is necessary to seek answers to the following questions:

- How do bankers like the public to perceive themselves and their industry? Is the current public perception justified? How do bankers perceive themselves? Is their perception of themselves realistic?
- What short-term and long-term actions can bankers take to reverse the present negative public image of the industry?
- Shouldn't bankers all resolve to adopt and enforce higher ethical standards as a permanent solution to the industry's image problem?

These and many more such questions need to be asked and answered by the industry as a group if it is to turn the current bad image to a positive one. If they don't, the industry cannot fully assume its rightful place in the socio-economic life of Nigeria.

The original text was presented at a Seminar organised by Kenneth Michael & Co. at Lagos, March, 1992.

Chapter 28

A Realistic Exchange Rate

Introduction

The exchange rate of a country is the most important economic factor owing to its political, economic and social impact. In Nigeria, this is more so, considering that our marginal propensity to import is 65%. That is, about 65% of all manufactured goods consumed in Nigeria are imported. Consequently, the implications of any changes in the exchange rate in this country is diverse.

Since 1986 the Federal Government has introduced a number of structural changes in the foreign exchange market to stabilise the Naira. In 1986, the Second-tier Foreign Exchange Market (SFEM) was operated with the first tier market. In 1987, the first and second tier markets were merged and the weekly bidding was changed to fortnightly, and while auction rate was N4.17/USD, the parallel rate was N4.6/USD. The Dutch Auction system was introduced in 1988. In 1989, both Foreign Exchange Market (FEM) and the autonomous markets were merged to further stabilise the exchange rate. Bureau de change was introduced in 1990 to deal on free foreign exchange and eliminate or minimise the effect of the parallel market, and while auction rate was #8.7, the parallel rate was N10/USD. In 1991, the foreign exchange market started operating through FEM and finally, the Federal Government introduced the domiciliary accounts to attract funds to the market. By 1992 the foreign exchange market had been fully deregulated,

while the auction rate was N18/USD, the parallel market was N19.5/USD. Therefore, the Naira depreciated by about 33% per annum at the auction and 40% per annum at the parallel market over this period.

This chapter is presented in five parts:

- (i) What is exchange rate?
- (ii) Who are interested in the exchange rate and why?
- (iii) What determines the exchange rate; can it be predicted and is there a realistic exchange rate?
- (iv) What has been the fate of the Naira? What factors affected its movements?
- (v) What does the future hold, and what are to be done?

What is Exchange Rate?

Simply put, it is a price, a relative price of a foreign currency in terms of the domestic currency of a country. That is the price of say one US dollar in terms of naira. Unlike the ordinary price of a commodity such as a car, for instance, it is based on expectation of current and future events both in the domestic and global economy.

Unless it is a fixed rate, movement of the exchange rate is contingent not only on current events but also on the expectation of what is perceived to happen in the future. However, like the ordinary price of a commodity, it is in the final analysis determined by supply and demand in a market economy unless it is fixed by the authorities.

The major sources of supply of foreign exchange are: export proceeds from goods and services; direct foreign investment inflow; external borrowings, grants and aids, remittances from abroad due to external investments etc. On the demand side, there are payments for imports of raw materials, spare parts, goods and

services, debt servicing, remittances due to dividends, acceleration to foreign exchange reserve etc. These will be discussed in greater detail in the course of this chapter.

Who is Interested in the Exchange Rate and Why?

In order to simplify the presentation, it can be stated that in any economy the major interested parties as to the rate of exchange include:

- the government and the monetary authorities.
- the manufacturers.
- importers/traders and indirectly – the consuming public.

The attitude of each sector depends on the impact of the exchange rate on its main objective interest.

Manufacturing Sector

This sector's view of a realistic exchange rate would be as diverse as the mini-sectors within it. Classifying these mini-sectors on the basis of sources of input gives the following groups:

Based on Local Inputs

This sector would welcome a weak naira as this would ensure: expensive imported substitutes of their products and more naira for their export proceeds.

Based on Imported Inputs

Since this sector's cost of production is directly related to the exchange rate, a strong naira would minimise their cost. Their idea of a realistic exchange rate is then that rate which will minimise their costs. The lower the rate, the more comfortable they are.

Based on both Imported and Local Inputs

The cost proportion of the imported and locally sourced inputs would be the influencing factor in their determination of a realistic exchange rate. Their market focus would also play a role. Thus, manufacturers who have a higher proportion of imported inputs and service the domestic market would be inclined towards a strong naira. Those who have a higher proportion of local inputs and service the export market would prefer a weak naira. It is needless to say then that even within this mini-sector, there is bound to be a disagreement over what is a realistic exchange rate.

Importers/Traders

Since the value-added by this sector is insignificant, it would welcome a low exchange rate fixed by government fiat as this would maximise their profits. Unless they are involved in the importation of necessities, they would be hard-hit by a weak naira. Their idea of a realistic exchange rate is a very strong naira which would minimise their cost of importation.

Public/Government Sector

The major objective of the government is to achieve that exchange rate which will ensure economic growth vis a vis - increasing output, demand and jobs (i.e., growing GDP), managing the rate of increase in the general level of prices within a tolerable limit and ensuring increase in consumers' real purchasing power.

Others are political and social stability to provide a conducive investment climate that will attract foreign capital.

What Determines the Exchange Rate?

Other related questions can also be posed: can it be forecast and is there a realistic exchange rate?

Many theories have been propounded as to what affects or determines the rate of exchange. These theories are of course

based on given assumptions especially the free interplay of market forces as well as free movement and convertibility of currencies. In the short run, one can safely say that all things being equal, current and expected changes in government policies both monetary and fiscal, will definitely influence the rate of exchange.

Causes of Change in Exchange Rate

- ***Inflation***

Again all things being equal, the exchange rate of countries that inflate fastest will be depreciating while the exchange rates of countries that inflate slowest will be appreciating. Changes in the relative price levels of two countries cause a corresponding percentage change in the exchange rate between their two currencies.

- ***Capital Movements***

Capital flows exert influences on exchange rates via appreciating the currencies of capital importing countries and depreciating the currencies of capital exporting countries. In other words, net capital exports are a deficit on capital account and they must depreciate a country's exchange rate until current account surplus of the same magnitude as the capital account deficit is opened up.

- ***Structural Changes***

The exchange rate can be affected by structural changes at the existing price levels. Structural change here refers to anything that affects the pattern of comparative advantage existing between a country and its trading partners.

For instance a country might be less dynamic than its competitors forcing consumers to shift from the home country's products to those of foreign countries. This causes a slow depreciation of the home country's exchange rate.

Long term changes in exchange rate can be accounted for by the interplay of many factors critical among which are the purchasing power parity theory, structural changes and the persistence of capital flow. Moreover, exchange rate fluctuations inhibit business from importing inputs because unanticipated exchange rate movements in the wrong direction can potentially eliminate profits. Thus, eliminating exchange rate fluctuations would reduce uncertainty about the value of international transaction and thereby, promote international trade. Econometric studies have failed to detect an adverse effect of exchange rate volatility on international trade. However, business can hedge exchange rate risk through futures markets for foreign exchange where such mechanism exists.

Theories of Exchange Rate

Purchasing Power Parity

This theory holds that the differences in expected rates of inflation between two countries should be offset in the long run by an equal but opposite change in the exchange rate. Thus, a 6 percent increase in the rate of inflation in Nigeria is offset by a 6 percent depreciation of the Naira. The rationale behind this theory is that if Nigeria and the United States have a common basket of goods, and the US maintains a relatively lower rate of inflation than Nigeria, US goods will become more price competitive in Nigeria and other countries. Consequently, this will put pressure on the exchange rate to change enough so that the price of similar goods will be the same in both countries.

However, since foreign exchange rates are influenced by other factors such as shifts in relative productivity, new discoveries such as oil and rapid shifts in money supply, the purchasing power parity theory has not proved a very useful tool especially when applied to a developing country. Even with developed economies the results could be suspect as evidenced in Figure 28.1.

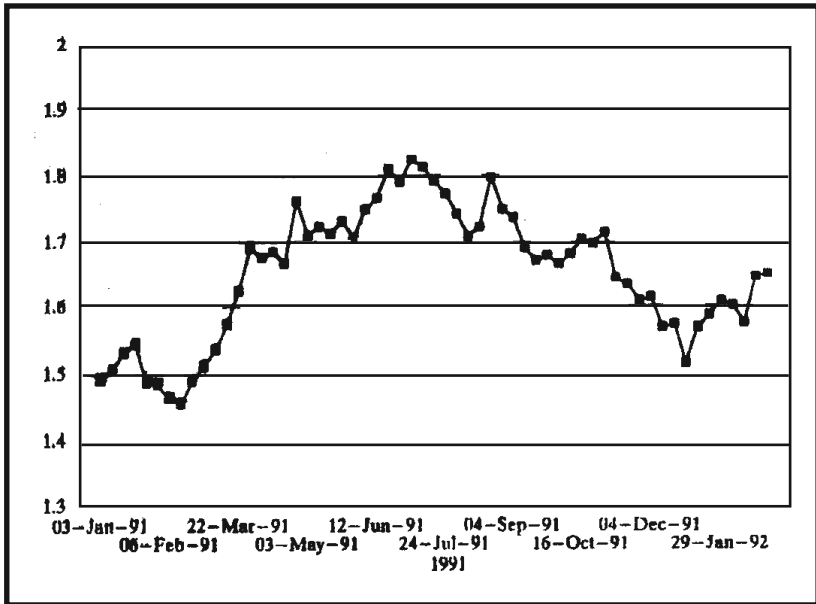


Figure 28.1: The Appreciation of the Dollar against DM

The Naira Exchange Rate

As earlier mentioned, the exchange rate is in the final analysis determined by the forces of supply and demand. Whenever the demand for foreign exchange outstrips the supply, a demand pressure is exerted on the value of naira *vis-a-vis* the dollar. This pressure manifests itself on the price of the dollar at the parallel market, a relatively “uncontrolled” market.

The problem of the Nigerian foreign exchange market is that the supply side of the equation has great limitations. The major source of supply is inflows from oil exports. Efforts made to stimulate non-oil exports have fallen short of expectation. Indeed, the economy did not fully respond to the spirit of the Structural Adjustment Programme (SAP). An element in the supply side of the equation is inflows from direct foreign investment. Again, Nigeria has not done well in this area. It would appear that all the appeals the country has made to foreign investors have been in vain. May be a hard look should be taken on why this is so. So far

the appeal has been on the basis of great market potential of the country.

This certainly has not and is really not sufficient for investment. Market potential is to an investor what collateral is to a banker in credit appraisal. Other elements have to be right as to merit the investment nod. Also policy authorities have neglected monitoring the structure of bank lending which has partly contributed to the pressure on the value of the naira. Hence the supply source is severely limited and very much beyond their control.

On the demand side, however, the picture is different. The demand for foreign exchange has witnessed tremendous growth in the past few years. The natural scarcity of foreign exchange coupled with the difficulties in government policy implementation has given rise to several distortions in the foreign exchange market. The result is the growing divergence between the official and parallel market rate for the dollar. The question one may ask is what led to the demand explosion for foreign exchange, in spite of the known policy thrust of the Government?

It is contended here that the main culprits are the self reinforcing trio which acted upon and reinforced one another namely: growth in money supply, rate of inflation and government fiscal deficit.

The Demand

Money supply MI (defined as currency outside the banks plus privately held demand deposits with the commercial banks and the CBN) rose consistently from N13.1 billion in 1986 to N37.2 billion by December 1990. At the same time and in line with the increase in money supply, the rate of inflation increased. Every student of economics is aware of the relationship between the growth in money supply and rate of inflation as in Table 28.1

TABLE 28.1: Money Supply and Rate of Inflation

	MI (Billion)	Rate of Inflation
1986	13.1	5.4
1987	14.9	10.2
1988	21.1	38.3
1989	25.7	42.7
1990 Dec.	37.2	N/A

Source: Statistical Bulletin, CBN

But what has been the cause for this increase in money supply. It is the contention here that of all the contributing factors, the level of Federal Government fiscal deficit ranks highest.

Between 1986 to 1990 the level of government fiscal deficit rose from N8.3 billion to N23.4 billion. The proportion of the deficit to the Gross Domestic Product (GDP) ranged from 10.6% in 1986 to 27.1% in 1990 as in Table 28.2. TABLE 28.2:

TABLE 28.2: Level of Fed. Govt. Fiscal Deficit

Year	N(m)	Rate of Inflation
1986	8,254	10.6
1987	9,172	11.6
1988	12,161	15.6
1989	15,266	18.7
1990	23,357	27.1

Source: CBN & IMF Publication

In Table 28.3, the comparative figures of fiscal deficits as a percentage of the GDP for five countries including Nigeria and Kenya are shown. The performance of the country *vis-a-vis* the other countries is unenviable.

TABLE 28.3: Fiscal Deficit as a Percent of GDP

Country	1986	1987	1988	1989	Average
NIGERIA	10.6	11.6	15.6	18.71	4.13
KENYA	4.7	7.5	3.7	3.9	4.95
EGYPT	12.2	5.9	—	-	9.05
USA	5.1	3.3	3.2	2.8	3.60
GERMANY	0.8	1.0	1.8	0.1	0.93

Source: CBN and IMF Publications culled from paper presented by Mallam Hayatu Dean on Natonal Debt Question.

This level of deficit is very serious. In most countries of Europe, any figure above 3% is considered dangerous. The only country in Europe that runs deficit of this magnitude is perhaps Italy with about 8% - 10%. This position can be explained because of the peculiarities of the Italian economy. Besides, because of the level of the accounting system in Italy, the position may not be as high as depicted.

How does government finance its deficit? Government could finance deficit through three possible ways; namely, debt – internal and external, taxation and money creation through printing.

In Nigeria, reliance on borrowing both internally and externally seem to have been fully stretched. Again due to poor administration, government has not fully maximised the potentials from taxation. It would appear therefore that the level of deficits has been funded mainly by the CBN. A look at Table 28.4 on issue and subscription of Treasury Bills can buttress this point.

TABLE 28.4: Issue and Subscription of Treasury Bills and Certificate

	% of Issued T. Bills subscribed By CBN	% of T. Certs. Subscribed by CBN
1986	61.6	77.4
1987	78.8	62.1
1988	80.0	72.0
1989	82.0	84.0
1990	N/A	97.5

Source: Statistical Bulletin

A consequence of financing public deficit via this method is that it causes a reduction of savings as inflation rises. In other words, it acts as if there is a general tax on all savings in the country. Thus increase in money supply can be attributed to badly controlled/managed public deficit. It is only by government keeping within its budget can this be avoided. Unless and until this is achieved, continuous government deficit will put severe pressure on the naira since aggregate domestic savings will not be sufficient to fund the deficit.

Up till this point no attempt has been made to ‘proclaim’ what a realistic exchange rate for the naira should be. Given the text-book reaction – a 150% jump of the parallel market rate, between Dec. 1987 and Dec. 1990 to an equally 150% increase in the money supply (MI), over the same period (at CBN auction rate the dollar had only 117% increase over the same period) should one conclude that the parallel market is the real measure of the exchange rate in Nigeria? If the answer is yes, should it be so? On the contrary, this should not be.

Some of the demand elements in the total demand equation should by now have been eliminated if indeed Nigerian entrepreneurs have truly answered the call of SAP. Based on this, it is apposite to argue that the true position lies between the price gap in the

parallel and official markets prior to the intervention by the CBN to fix the exchange rate to bridge the price gap.

Nevertheless this is an interim but painful measure which does not solve the underlying problem of the market. The search for an official rate is still in progress and hopefully by a combination of fiscal and monetary policies, success will be achieved. In order to achieve an optimal (not realistic) exchange rate, the following suggestions could be considered:

There are certain ventures which if the Nigerian economy is to be properly structured, have to be made to realign their businesses. There are those enterprises that rely on hundred percent imported inputs. Where the products have close substitutes locally, a first step is to give sufficient notice to these enterprises to change business after which their access to foreign exchange will be constrained.

Another area is, to put measures in place to encourage and expedite the sourcing of local raw materials by manufacturers. Major areas of interest that provide raw materials are in the field of extractive industries, agriculture and the petrochemical industries. Government should as a matter of deliberate policy give priority to these areas.

The money supply (MI) is one of the most important ways of controlling the exchange rate. A case in point is the liquidity squeeze in the mid-1989, following the withdrawal of #6.7 billion from the system. This resulted in the dramatic increase in interest rates, fall in inflation and appreciation of the Naira on the parallel market. In this case, the government has to balance its objectives of keeping positive real interest rates and a stable foreign exchange rate with its expenditure to stimulate investment and maximise productive capacity.

This was aptly put by the CBN Governor in his March 5th, 1992 statement on the operation of the foreign exchange thus. "...the

Federal Government reaffirms its full commitment to the policy of fiscal restraint and public sector rationalisation. The Federal Government also reaffirms its determination to target its expenditure only on priority projects that can be satisfactorily completed before the end of 1993. More emphasis is also to be placed on asset maintenance. It is expected that these measures will reduce total government spending to sustainable levels consistent with macroeconomic stability. Together, these will go a long way to reduce further the pressures on the exchange rate". In other words, while the Federal Government manages its fiscal policies, the Central Bank of Nigeria will manage the monetary policies of the country. Consequently, the ultimate goal is to manage the exchange rate by the manipulation of the level of money supply (M1) in the economy.

Again the principal goal of monetary policy is price stability. By achieving price stability, other goals of macroeconomic policy, such as high employment and economic growth can be achieved over the long run. To ensure that the monetary authority carries out this mandate, the authority should have a significant degree of political independence and should refrain from issuing credit to the public sector. This course of action will enable the government to run excessive deficits with no recourse to financing the deficits through money creations. The rising cost of government borrowing, along with reduced credit availability, would induce the government to improve fiscal policies. Another mechanism would be fiscal policy rules. For example, rules might be enacted that place an upper limit on the size of budget deficits and government debt relative to GNP.

Realignment of the Naira

All these apart, the time has come for the naira to be aligned with more than one currency. The dollar is so volatile and to manage such volatility is not easy. For instance, the dollar appreciated against all currencies in the world except the Japanese Yen between

March 1991 and March 1992.

Since 1991, it has risen by 25% to June and depreciated by 20% from June to December 1991 and again up by 16% from December to March 1992. Infact, the pressure on the naira as has been mentioned earlier, is partly due to the continuous rise of the dollar during the period.

Introducing the “Fix”

How about “price fixing” as is done in certain countries of Europe. It is a public auction held independently under the auspices of the Stock Exchange. Price fixing is done by representatives of the money market who establish the central point and “fix” the spread. What is being advocated here is not a fixed exchange rate which encourages market inefficiency among other draw backs. It is rather a compromise between the fixed and floating exchange rate system which if not properly ‘guided’ can cause inflation and induce considerable instability. Between these two extremes the optimal rate of the naira exchange will be found.

Finally, given that the main source of foreign exchange is the government, the CBN’s position as a supplier, regulator and a player in the market becomes very problematic and unenviable. There is no way it can act without blemish. It is important that whatever rate obtains in the market has credibility.

The original text was presented at a Seminar organised by Kenneth Michael & Co. at Lagos. March, 1992.

Chapter 29

Nigerian Stock Exchange: Coping with the Challenges of the Economy

Introduction

The Nigerian Stock Exchange is a private sector initiative and a self-regulatory organisation (SRO) in the Nigerian capital market. Established in September 1960 as a private company limited by guarantee, and following the enactment of the Nigerian Stock Exchange Act of 1961, the Exchange commenced operations in 1961 then known as the Lagos Stock Exchange with 19 securities valued #80 million.

In 1977, as a fall out of the White Paper on the Report of the Okigbo Financial System Review Committee, the Lagos Stock Exchange was renamed the Nigerian Stock Exchange and became a national stock exchange with branches in Lagos, Kaduna, Port Harcourt, Kano, Onitsha and Ibadan.

Objective of the Exchange and Achievements

The major objective for establishing the Nigerian Stock Exchange is to mobilise finance for economic development. The extent to which the Exchange has been able to meet this need is therefore perhaps a good basis for measuring its success or otherwise as a self regulatory authority in the Nigerian capital market. Over the years, the Nigerian Stock Exchange has made significant contributions to the capital formation process in Nigeria, both as a vehicle for raising capital and as a catalyst for fund mobilisation efforts.

To understand and appreciate the achievement and role of the Exchange, one has to realise that the capital market in Nigeria has been very slow to develop into a full fledged market. Various components of a capital market exist in the country but there is little or at best, tenuous linkages within the main constituents of the market.

Between 1961 and 1987, the Federal Government raised long-term funds (gilts) worth over N10 billion on the Exchange for on – lending to the regional (and later state) governments for the financing of development projects. These (gilts) are called Federal Government Development Stocks (FGDS). The stocks outstanding on the Federal Government Stocks sector of the Exchange are currently worth N3.0 billion. The gilts, besides providing funds for capital projects, also afforded macro economic managers the tools for moderating inflation and money supply instead of utilising “ways and means” usually associated with inflation.

Five state governments and one local government have raised funds through the Nigerian Stock Exchange for the financing of various projects in the country. These are: Lagos State – N100m; Ogun State – N30m; Oyo State – N50m; Kaduna State – N30m and the defunct Bendel State – N20m. In 1993, the Exchange listed its first municipal bond, namely: the Lagos Island Local Government N100 million Floating Rate Revenue Bond 1996/2000. These were all fully subscribed.

The Nigerian Stock Exchange played a significant role during the indigenisation exercise between 1972 and 1977 when thirteen companies complied with the Nigerian Enterprises Promotion Act 1972. During the exercise, 78 companies sold over 300 million shares worth N210 million through the Exchange in order to comply with the Nigerian Enterprises Promotion Act 1977. The Exchange continues to play a pivotal role in the overall success of the on-going privatisation programme, serving as a conduit for

the partial and/or full divestment of the government in several organisations.

The introduction of the Second-Tier Securities Market (SSM) in 1985 is part of the initiative of the Nigerian Stock Exchange for the promotion of small and medium scale enterprises in the country. By providing facilities at the stock market to viable small and medium scale indigenous entrepreneurs to raise funds for the expansion and modernisation of their businesses, the scheme has been contributing to the country's capital formation and reduction of unemployment as small-scale enterprises worldwide are known to generate higher employment than large scale ventures. So far 29 companies have been listed under the SSM sector but eight have graduated to the main board while one was delisted due to a merger with a bigger quoted company. Many more applications are being processed.

The establishment of the SSM is expected to put more life into the capital market by allowing companies that do not meet the Exchange's First-Tier stringent listing requirements to still participate in the stock market activities. Another advantage is that the cost of listing a SSM company is comparatively lower than quotation on the main market.

Following the deregulation of interest rates in 1989 and the consequent interest rate crisis in the money market, many companies used the funding opportunity offered by the Exchange to raise various sums of money (through equity and debt instruments) for the financing of plant modernisation or expansion of operations and working capital requirements. It is worthy of note that funds raised were at costs more competitive than was obtained in the money market. The Exchange has continued to provide sustained avenues for raising long term funds in the economy.

Rating of the Nigerian Stock Exchange and Performance of the Stock index

In 1995, 23 new issues valued N7.1 billion were approved for listing by the Exchange compared to 21 valued at N2.7 billion in 1994. Turnover during the year stood at N1.8 billion, as against N986 million in 1994, while the number of listed securities remained unchanged at 276. This performance which is matched by the returns on the market has been acknowledged internationally, with the- International Finance Corporation, rating the Nigerian stock market in 1991 among the best 15 performers in the world. By the end of 1994, the market was rated by the same institution as one of the best three performers in terms of return on investment.

The excellent performances of NSE quoted companies relative to other companies, especially in the period of depression, may be attributed to the stock market discipline and effective management of its post-listing requirements. The IFC Global Index for Nigeria measured in dollar terms grew by 52% during the second quarter of 1995 and the trend was maintained in the third quarter as it recorded a growth of 42.2%, the highest in the IFC constituents during the period. In Naira terms, the NSE All-Share Index grew by 130% in 1995, while its market capitalisation grew by 161% from N65.5 billion in 1994 to N171.1 billion in 1995.

Internationalisation and Automation of the Exchange

The foregoing contributions of the Exchange are the outcome of a corporate disposition to respond to current and future needs of the Nigerian economy. In the process, the Exchange has demonstrated the attributes of a change agent, influencing positively the growth direction of the economy. In a nutshell, the Exchange which has been open to all varieties of securities (equities and debts; gilts and industrials) acted as a veritable tool for government's articulation of wider shareholdership in its

indigenisation and privatisation programmes, giving support to SMEs to grow into big companies and providing a conduit for the inflow of foreign exchange. For instance, in 1987, the Exchange saw the need to internationalise the Nigerian stock market and subsequently began upgrading its operations to meet international standards. On June 2, 1987, the Exchange became the fourth in the world to be hooked on-line and live to the Reuters Electronic Contributor System (ECS) which daily beams the stock market information to the global community. The ECS service provides automatic access by foreign investors to relevant information on companies quoted on the Nigerian Exchange.

In 1993, the Exchange incorporated the Central Securities Clearing System Limited (the clearing house) as a subsidiary Company to establish and manage an automated clearing and settlement system for the Nigerian stock market, in addition to providing depository and custodian services. Also a module in the clearing house system would provide computer assisted securities trading as well as hook-on the branches of the Exchange on-line thereby bringing its services closer to the branches. The above initiatives will enable the Exchange to meet the demands of an internationalised market, especially since 1995 when the key legal obstacles were removed in the 1995 budget followed by the enactment of Decrees 17 and 18 of 1995.

However, the above contributions of the Exchange to the Nigerian capital market and the economy have been with the existing operating fiscal and regulatory environment. There is much more to be done as the environment improves and as the various components of the capital market develop the necessary inter linkages within the market and also between the market and the rest of the economy.

Chapter 30

Investing in the Nigerian Stock Market through the Nigerian Stock Exchange

Introduction

The Lagos Stock Exchange is at the centre of the Nigerian capital market. Formed in 1960, and operational since 1961, it was expected to help in the mobilisation of funds for capital development, within the public and private sectors of the economy. Because of several legal and administrative bottlenecks, the Exchange has been unable to fulfil this role as envisaged. It has however played a major role in the economic history of the country since the government relied on it, as the main vehicle, for its indigenisation and privatisation programmes.

When the Exchange began operation in 1961, it had only one trading floor in Lagos, with only nineteen securities worth about N80 million (eighty million naira). By 1994, the Exchange had developed a fairly good infrastructure comprising six branches, each with a trading floor, one hundred and forty stock brokerage firms, over forty merchant banks, many of them acting as issuing houses. Also by the end of 1994, the Exchange had, listed on it, two hundred and seventy-six securities made up of thirty-one Federal Government stock, sixty-five industrial loan (debenture) preference stock and one hundred and eighty corporate equity/ordinary shares, all with a total market capitalisation of approximately N70 billion (seventy billion naira).

Most of the large multinational companies such as Lever Brothers, Total, Nestle, Mobil, SCOA, Cadbury, etc., to mention but a few, are listed on the Stock Exchange. The Nigerian capital market and indeed the Stock Exchange was severely handicapped by especially two main legal constraints namely; The Nigerian Enterprises Promotion Decree of 1972 and The Exchange Control Act of 1962. As a result of these legal restrictions, it was largely a domestic stock market; quoted companies could not aspire for cross-border listing in order to take advantage of the benefits derivable from this, neither could companies quoted on other stock exchanges seek quotation on the Nigerian Stock Exchange. It was for this reason, among others, that the International Finance Corporation (IFC), for instance, excluded the Nigerian stock market from the list of emerging stock markets on which it maintains the IFC Investable Index. The IFC Investable Index, measures the kind of returns foreign portfolio investors could get from investing in a select number of securities in an emerging stock market. It is a good yardstick for comparing markets as a basis for a cross-border investment decision. It must be noted, however, that the exclusion of the Nigerian stock market from list of markets on which the IFC maintains an Investable Index was in spite of the fact that the overall returns on the market as reflected in the IFC Global Index has identified the market as one of the leaders in the world equities market, using returns as an index. In effect, therefore, the market has all this while, missed out on patronage by foreign portfolio investors who may have desired to take advantage of its impressive returns by investing in it.

A summary of the activities on The Nigerian Stock Exchange over the last five years are shown in Table 30.1.

TABLE 30.1: Five-Year Statistical Summary of Activities on the Nigerian Stock Exchange

	1990	1991	1992	1993	1994
Market Capitalization	N15.96bn	N22.6bn	N32.5bn	N46.96bn	N65.5bn
Turnover (volume)	305m shares	176m shares	262 shares	473 shares	524m shares
All – share index*	513.8	784.0	1107.6	1543.8	2205.0
P/E Ratio	6.0	10.6	9.0	8.4	
No of Listed Securities	217	239	251	272	276

*** The base year for The NSE All- share Index is January 3, 1994:100**

Table 30.1 is very significant in that it indeed highlights both the present drawback and, at the same time, the enormous potential available in the Nigerian stock market. The first significant element in the Table is the very low market capitalisation, the large number of listed securities notwithstanding. Another striking feature is the low price/earnings (PIE) Ratio. With a high annual inflation rate of over sixty to seventy per cent, one would expect a major shift from interest bearing investments to equities, yet the Nigerian share prices have remained low. As evident from the Table, apart from 1991, the price earning ratio for each of the years has been a single digit. This is in contrast with double digit price earning ratios in developed economies with much lower rate of inflation. What this confirms is one of the salient features of the Nigerian stock market, namely; the absence of any speculative demand. Put in another way, it shows the absence of market forces on the price of shares or that prices have been artificially kept low.

The size of the market capitalisation also confirms the above assertion that prices have been kept low by the authorities whose main focus was not the development but the control of the market. Thus Nigeria has a nominally big stock market with almost three

hundred securities but financially, a very small market with under two billion US dollars capitalisation.

Happily these things will soon be history as the posture of government is no longer that of control but promotion. Nigeria has embarked on a new journey where the role of the Stock Exchange will be that of resource mobilisation and allocation. This journey which has the backing of the authorities is aimed at liberalising the market and investment procedures, improving the efficiency of trading and delivery systems. In this new phase, pricing will play a major part and it is expected that all administrative influences and bottlenecks that impinge on the natural evolution or the market determination of shares prices, will be eliminated.

These will soon be eliminated because the internal pressure to do so has reached a crescendo. Added to this, is the free market posture of the authorities. The existing position can no longer be justified. Take for instance, a single case, that of the West African Portland Cement. With a production of 1.5 million metric tons of cement per annum, a net commercial margin of 25% of turnover, it has a capitalisation of less than fifteen million dollars. This is of course not a realistic valuation. Practically all the listed companies with very little exception are grossly undervalued. Herein lies the potential in the Nigerian stock market which is at the threshold of a very bright future for all the participants. When it does begin, the boom will confound all pessimistic views on the Nigerian market.

In a space of two years, the Nigerian stock market - has witnessed two policy shifts which have great implications for its future growth. The first was in 1993 when the Federal Government deregulated the market in a move to promote competitive pricing for industrial equities. Consequently, official pricing of issues in the primary market ceased as the function devolved from the Securities and Exchange Commission (SEC) – a government agency – to issuing houses/stockbrokers, among other role

changes. Essentially, therefore, deregulation has made the stock market more vibrant and competitive.

The second significant policy shift was the abrogation/repeal of The Exchange Control Act 1962 and the Enterprises Promotion Decree 1989 in the 1995 fiscal year. Both investment- related legislations, while they existed, combined to effectively restrict foreign participation in the market process, especially the involvement of foreign portfolio investors who by the nature of their operations could not surmount the hurdles these laws posed to fund movement across international boundaries.

Thus, with the abrogation of The Exchange Control Act of 1962 and the Nigerian Enterprises Promotion Decree of 1989 and the consequent opening-up of the Nigerian stock market, the country expects significant investment capital inflow through the framework of the Nigerian Stock Exchange. Consequently, it is also expected that very soon the IFC Emerging Markets Database will start keeping an Investable Index on The Lagos Stock Exchange, among other market information which hitherto were not available on Nigeria. From the perspective of a market operator and regulator, there is no gainsaying that the already identified policy shifts by the government are welcome developments. They have bolstered domestic investor confidence in the ability of the market to respond (through appropriate pricing) to changes in the economic environment and have rekindled international interest in the viability of the Nigerian stock market as an investment option among other stock markets.

The renewed foreign interest in the market is manifested in the high number of enquiries that are received daily at the Nigerian Stock Exchange from international stock exchanges, institutional investors and global portfolio managers. Basically, these enquiries seek information on market practices, with particular regard to the Exchange's rules and regulations, listing requirements, types of financial instruments available in the market, clearing,

settlement delivery system, depository and custodian services, trading system and membership. Others are legal framework, investor protection fund, cost of transactions in the market, taxation policies and tax incentives, stock market publications, etc. This is not surprising, for, certainly, it requires a good knowledge of these factors which define a market environment for a worthwhile investment decision to be made in any stock market. The Stock Exchange continuously provides this information to prospective foreign investors. (See Appendices 31.1 and 31.2).

Rules and Regulations and Listing Requirements

The Nigerian Stock Exchange is a self-regulatory organisation (SRO) like stock exchanges in other parts of the world which have become regulatory authorities supervising the activities of their members and the directors of quoted companies. Body of rules and regulations exists which guides relationships between the Exchange members and quoted companies, relationship among members, and relationship between members and the investing public. Other rules guiding operations in the market derive from this main body of rules and regulations which was last revised in 1993. These other rules are, listing requirements for companies seeking quotations and quoted companies issuing additional securities, codes of conduct for council members, employees of the exchange, dealing members, and directors of quoted companies. The codes of conduct/ethics are aimed at ensuring that the subjects do not compromise themselves in the discharge of their duties and to protect investors from any malpractices such as insider dealing.

Members' conduct in relation to these rules are monitored regularly by the Exchange. Monitoring is done both on the trading floors of the Exchange and through inspection visits to offices of members by the inspectorate/surveillance unit of the Exchange. In cases of non-compliance, offenders are warned, fined, suspended or their

licence withdrawn, depending on the gravity of each offence. Companies seeking quotation on the Exchange must meet all the listing requirements of the Exchange, and those already listed must adhere to the post-listing undertaking and disclosure requirements for public accountability.

Membership

As it repealed the Exchange Control Act 1962 and the Nigerian Enterprises Promotion Decree 1989, the Federal Government said it would in due course promulgate a replacement Act to guide foreign participation in the Nigerian stock market. In the interim, however, the Exchange has published a guideline for foreign participation in the market, whether as operators, investors or fund users.

Under the guideline, foreign stockbrokers can deal on the market simply by buying into existing stockbroking houses. There are currently more than 300 members of the Exchange, made up of dealing and non-dealing (corporate/individual) members. The corporate members, some of which constitute the population of dealing members of the Exchange, must be *ab initio* financial firms/institutions, while the individual members must be persons with integrity and experience in finance and business.

Also under the guideline published by the Exchange, quoted companies can henceforth seek multiple stock exchange quotation based on a memorandum of understanding between the Nigerian Stock Exchange and the other stock exchange in which the local company is seeking a quotation. (*See Appendix I for the details of the guideline*). There is currently no memorandum of understanding in force but, already, talks have begun between the Stock Exchange and the Johannesburg Stock Exchange for the signing of a memorandum of understanding that would, among others, enable companies quoted on both stock exchanges to seek cross-border quotation.

Financial Instruments/Market Structure

Instruments available on the Nigerian stock market are bonds (government stocks), debentures or industrial loan stocks, preference stocks, and ordinary shares (equities). The quoted companies represent a profile of the various sectors of the Nigerian economy, ranging from automobile, banking, breweries, through pharmaceutical to agro-allied, publishing and textile companies. Many of them still have foreign/multinational affiliations.

The structure of the market is however such that there are no special segments for futures and options trading. This is partly as a result of the hitherto poor liquidity of the market, the consequent low turnover and the policy of the regulatory authorities which does not allow speculation on the market. All of this will however be reviewed in accordance with the current growth trend of the market and the quest for the internationalisation of its operations.

The trading system on the Exchange is the call-over system; trading commences simultaneously at 11.00 a.m. daily on all the six floors of the Exchange. All deals on quoted securities are done on the floors of the Exchange. Transaction costs subsist in 3% broker's commission, stamp duty and the Securities and Exchange Commission fee.

Clearing and Settlement

The Stock Exchange is a cash market. Settlement is on "Account Settlement" basis and is executed fortnightly in accordance with a yearly settlement roster issued to dealing members by the Exchange.

As part of the internationalisation of the stock market, a Central Securities Clearing Company (CSCC) has been incorporated as a subsidiary of the Stock Exchange. This would enhance clearing, settlement, delivery, and – by extension – turnover on the market. It is envisaged that as a result of the company, settlement and

delivery on the market could be done under one week. It is pertinent to remark here that the commitment of the Exchange to the enhancement of its clearing and delivery system is also informed by the subscription to the FIBV overall aspiration to significantly improve clearing and delivery on the world equities market.

Investor Protection

One of the principal conditions for investment in the Nigerian stock market is that all transactions on the securities of quoted companies must be made on the floors of the Exchange. Full disclosure is also required of companies issuing fresh securities, and quoted companies are required to publish quarterly and end-of-the-year information on their operations within a specific period, among other requirements in the pre-listing and post-listing requirements of the Exchange. There is in addition, the code of conduct for dealing members of the Exchange which stipulates the expected relationship between dealers and their clients (the investors). Furthermore, an investors' compensation fund is about being established, and disciplinary committee exists at Council level to adjudicate on matters of unethical conduct by members and quoted companies.

Insider dealing has not been a feature of the Nigerian stock market. Nonetheless, special measures exist to prevent insider abuse. Such measures include the time limit when directors of quoted companies can/cannot buy into their companies or sell their equity. Directors are also required to publish their interests in the annual reports and accounts.

Beyond all this, there are specific provisions in relevant Nigerian laws which makes insider dealing both a criminal and civil offence.

Market Information

The Stock Exchange publishes a daily official list, showing closing prices of all securities quoted on it. The official list also conveys information on dividend payment, scrip issue, earnings per share, interest payment date, and price earnings ratio on the various securities, in addition to information on latest transaction and volume of transaction on any given security. Transactions on the Exchange are also published regularly in the newspapers, radio and television through press releases and observations by journalists from the viewing gallery of the trading floor. Furthermore closing prices on the Exchange are beamed worldwide via the Reuters Electronic Information Network, whose on-line code is NSXA.

Also, stock market information is made available to the public through the weekly, monthly and quarterly stock market publications, which review transactions during the periods and are aimed at updating the public on market activities.

Conclusion

The above write-up though brief, constitutes the environment for investing in the Nigerian Stock market through the framework of the Stock Exchange. The Exchange holds great promise for portfolio investors. It played a crucial role in Nigeria's indigenisation programme and the successful implementation of the country's privatisation programme, and with the recent policy changes which have opened up the economy to the international capital market, it is set to play the equally crucial role of being a link in the ensuing flow of investment capital between the domestic capital market and the broader international capital market.

This Chapter was based on a paper presented at the First Africa-Europe Forum "Let's Trust Africa" held at Paris on March 27 - 30, 1995

APPENDIX 30.1

LISTING REQUIREMENTS FOR THE FIRST-TIER MARKET (MAIN BOARD)

In order to obtain quotation on this segment of the market, every applicant company must satisfy all of the following conditions:

- Must be a public limited company.
- Must have 5 years operating records/audited Accounts.
- Amount of money that can be raised in equity is unlimited; it depends on the borrowing power and capacity of the Directors! Company.
- Minimum of 25% of equity must be made available to the public.
- Number of shareholders must not be less than 300 post-listing.
- Prospectus must contain statutory disclosure requirements.

THE SECOND-TIER SECURITIES MARKET (SSM)

In response to the growing needs of small and medium-sized companies for accessibility to the securities market, the Council of the Exchange in April, 1985, established the Second-Tier Securities Market (SSM). The SSM operates much like the Unlimed Securities Market (USM) in the United States of America. It is principally for small/mediumsized companies, existing to assist small/medium-sized companies that are unable to meet the requirements of the first-tier markets to get stock exchange quotation and thereby take advantage of financing opportunities in the capital market. The market essentially operates like the First-Tier Market but is less stringent in terms of listing requirements.

LISTING REQUIREMENTS FOR GOVERNMENT STOCKS/BONDS

In addition to the usual listing requirements for corporate equity, the NSE requires that all applications for Federal/State Government Bonds/Municipal or Local Government Bonds meet the following conditions:

The prospectus must contain:

- (a) the legal authority under which the security is issued.
- (b) the full particulars of the security, including any sinking fund and any right of the State Government to redeem the security before maturity.
- (c) dates of interest payments and tax positions on interest.
- (d) the trustee status.
- (e) a statement by the Accountant General that to the best of his knowledge and belief there is nothing contained in the prospectus which will make the statement regarding the financial viability of the project misleading.
- (f) the guarantee of the Government to the stock/bond rating priority claim of repayment of the bond against statutory resources of the said Government.

LISTING REQUIREMENTS OF THE SSM

For any company seeking listing on the SSM, it must satisfy the following conditions:

- Must be a public limited company
- Must have 3 years operating records/audited accounts
- Minimum of 10% of the equity must be made available to the public
- Number of shareholders must not be less than 100 post listing

- Amount of money that can be raised may not exceed #10 million

APPENDIX 30.2

NEW ADMINISTRATIVE GUIDELINES FOR INVESTMENT THROUGH THE LAGOS STOCK EXCHANGE

- 1.0 The 1995 National budget repealed the two key foreign investment-related laws, namely:
 - i. The Exchange Control Act 1962.
 - ii. The Nigerian Enterprises Promotion Decree 1989.
- According to the Minister of Finance, the other laws and regulations hindering inflow of foreign investments, wherever identified, will be amended/repealed in due course.
- Consequently, the level of foreign ownership in any Nigerian companies and the flow of foreign capital into the country are now unrestricted.
- It is assumed that the Federal Ministry of Finance will soon put in place appropriate guidelines to reflect these pronouncements.
- It is against this background that the NSE issues the following guidelines to all its members and investors on the Nigerian stock market. The guidelines complement any other circulars issued by the monetary authorities.

2.0 MEMBERSHIP

- Dealing members of the Nigerian Stock Exchange can now accommodate foreign shareholders in their equity capital.
- Applications from foreign stockbrokers as members on the Nigerian Stock Exchange can now be entertained within the rules and regulations of the Nigerian Stock Exchange, as long as vacancies exist.

3.0 PUBLIC ISSUES

- Companies quoted on the Nigerian Stock Exchange can now make new issues which could be subscribed to by all persons irrespective of nationalities and to any level within the capital structure of the companies.
- Quoted companies may also seek multiple/cross-border listing, subject to the Lagos Stock Exchange “Memorandum of Understanding” with such international stock companies.
- Companies making initial public offers through the Lagos Stock Exchange, should ensure that henceforth their prospectus are issued to accommodate all subscribers whether Nigerians or foreigners.

4.0 SECONDARY SECURITIES MARKET

- Dealing members may now buy and sell quoted securities on behalf of Nigerians and non-Nigerians within the rules and regulations of the Stock Exchange.
- Accordingly, current transfer forms that contain attestation of Nigerian citizenship should now be amended to allow transfers to Nigerians and non-Nigerians.
- All the securities listed on the Nigerian Stock Exchange Official List are still registered securities, in case bearer note transactions remain inadmissible on the Exchange.
- Investors should note that share certificates of companies quoted on the Exchange are negotiable instruments, hence registrars should NOT seek the approval of the vendors before effecting transfers. In effect, owners should protect their certificates as they would their currencies.
- The Nigerian Stock Exchange through its Central Securities Clearing House provides Custodian services to all investors on request.
- To avoid concentration of share ownership in few hands, nominal transfers are still limited to among/between family

members and associated corporate entities.

5.0 DISCLOSURE OF EQUITY HOLDING

As soon as the holding of an individual or corporate body in a quoted company gets to 5% of the equity capital, the beneficiary must notify the Exchange.

6.0 SETTLEMENT

The Nigerian stock market is still a cash market and therefore settlement for transactions on the Exchange is on Account settlement's basis. This is done fortnightly in accordance with the settlement roster issued at the beginning of each year to all dealing members. However, as soon as the Central Securities Clearing House, promoted by the Exchange commences operation, delivery and settlement on the Exchange will be done between 3 to 5 business days after transactions. (T + 3 to T +5).

7.0 MARKET INFORMATION

- The Nigerian Stock Exchange publishes a daily official list which provides information on daily transactions on the Exchange. It is available to subscribers at the end of each trading day. Also, this information is transmitted globally via the Reuters International Network to which the Exchange is linked on-line. The code of the NSE on the Reuters Network is **NSXA·B**.
- All foreign enquiries concerning investment through the Exchange should be made through members of the Nigerian Stock Exchange. This way, users of information received from such enquiries could be more certain about their authenticity.

8.0 **TAXES**

Withholding tax on dividend and interest remains at 10%; corporate income tax, 35%; capital gains tax, 20%.

9.0 **REVIEW OF GUIDELINES**

These guidelines are subject to changes as the need arises and these will be communicated to all dealing members in supplementary circulars.

Chapter 31

Funding the Tourism Industry through the Nigerian Capital Market

Introduction

The development of the tourism industry has proved to be a viable source of foreign exchange earnings in many countries. Even in Africa, countries like Kenya, Egypt, Morocco, Mauritius and Tunisia are among those that depend on this industry for a significant proportion of their foreign exchange earnings. Although none of these countries can compete with Nigeria in terms of diversity of tourist attractions, they are able to develop theirs to international admiration. The reason tourism has fared well in these countries is the realisation that it can serve as a catalyst for wealth generation. An overview of the Egyptian tourism industry, for instance, will show that private investors, both foreign and indigenous, have now replaced the government as the major promoters of the industry.

Since the introduction of the privatisation programme in Nigeria, only the Federal Government could be said to have been very active in encouraging private participation in the tourist industry. Most states and local governments continue to hold on to their investments in tourism despite the poor level of profitability, which is mainly caused by chronic managerial inefficiency and insufficient funding. A welcome departure from this could be Eti-osa Local Government Council. It has put up plans to build tourist facilities

which they propose to finance by raising capital through the Nigerian capital market.

On the other hand, the private sector mainly concentrate on the provision of auxiliary tourist services such as transportation, accommodation and catering services. Private sector participation in the development of tourist attractions is constrained by insufficient capital, risk aversion and lack of government incentives.

Militating Factors to Tourism Development

Insufficient Capital

Development of tourist attractions is capital intensive. For example, few individuals could afford to acquire a game reserve or collect priceless antiques.

This very reason makes the pooling of funds by many individuals necessary and its achievement via the capital market inevitable. Furthermore, since investments in tourism are long term, the cheapest way to raise such funds is through the sale of long term securities in the capital market.

The current financial condition of most states and local governments puts them at par with private entrepreneurs when it comes to the issue of raising sufficient funds for investment. Hence, it is in the interest of most states to privatise their tourist related ventures, such as hotels, leisure parks, sporting facilities like golf courses etc. This will not only lead to greater operational efficiency, it will also lead to an increase in their internally generated revenue.

Risk Aversion

The market for tourist services depends on many exogenous factors such as political situation, health consideration, social condition, etc., which in most developing countries are

unpredictable. These uncertainties make such investments very risky for sole proprietors. On the contrary, capital market investors are not bothered about the indiosyncratic risks of any particular investment as these could be diversified away in their portfolio. Such attitude, more than anything else, makes funding of investment via the stock market more attractive.

Lack of Government Incentives

The philosophy behind the privatisation programme is that the role of government should be restricted to the creation of conducive investment environment. In line with this philosophy, it is not difficult to appreciate what is required from a country if it is to be considered an attractive destination for tourists. Certainly, a sound infrastructure is needed, offering the latest telecommunications, a reliable power supply and clean tap water at all tourist destinations. In summary an array of totally safe and reliable utilities. Turning then to transport, it must be able to offer safe, frequent and convenient services by rail and air networks as well as a fast and safe road networks. It is a fact that transport in itself can be an attraction for tourists rather than necessity. In Kenya for instance, the train journey from Nairobi to Mombasa is considered a “must” for tourists and has become a lucrative source of income for Kenyan Railways. A country also must be able to offer tourists absolute security – security in their hotels and lodgings, security when they are travelling and security when they are walking on the streets and beaches. The adverse publicity that Nigeria has unfortunately received overseas in terms of its internal security has certainly made potential tourists hypersensitive to this aspect of life.

In this regard one sees the promulgation of the Investment Promotion Decree, the war against crime and indiscipline (establishment of NDLEA and the Failed Banks Tribunals) and the democratisation process as great steps towards creating conducive environment for investment in tourism and other industries.

Conclusion

The increasing number of state and local governments and the dropping oil revenue for the country have made the proportion of revenue allocation to the state and local governments hardly enough for staff salaries. In effect, little fund is left for capital development ventures and the provision of social services. Another factor responsible for the financial difficulties of state and local governments are their poor revenue generation efforts from internal sources.

The Federal, State and Local Governments and the organised private sector should develop the sense of national identity, so that the outside world would have a better perception of the image of the country. Development of the tourism industry is particularly important to overall national socioeconomic development since, for instance, it stimulates the construction of communication and transport links to diverse parts of the country which have tourism potentials.

Regional air services to neighbouring countries enable tourist circuits to be developed. And postal and telephone links are as essential to economic development as they are to tourism. This development requires long term funding which the capital market can provide. Therefore, Federal, State, Local Governments and the organised private sector should access the Nigerian capital market for funds for the provision of infrastructural facilities which will transform Nigeria's tourism industry into a rich and dynamic sector of the economy.

Originally presented as a Welcome Address at a Seminar on "Funding the Tourism Industry through the Nigerian Capital Market" held in Lagos on August 14, 1996.

Chapter 32

Performance of and Perspectives on the Nigerian Stock Market

Introduction

The Nigerian Stock Exchange (NSE) is an emerging market which commenced operation in 1961 in response to the need for a stock market in Nigeria. Before then, all formal savings and deposits went through the banking system while major capital balances were invested for the country by the then British colonial administration on the London Stock Exchange.

The Nigerian Stock Exchange grew gradually, moreso in the absence of complementary capital market institutions such as issuing houses, pension funds and a capital market regulatory agency. The growth was later accelerated by various government initiatives which, amongst others, included the following:

- Enactment of specific statutes aimed at mobilising savings and allocating same for long-term investment through the stock market. The Trustee Investment Act, 1962, The Income Tax Management Act, 1976 and The Insurance Decree 1991 all compel fund managers to ensure that at least $33\frac{1}{3}\%$ of their portfolios are made up of securities quoted on the Exchange.
- In the 1972 indigenisation Decree through the 1977 reenactment, government sought to correct perceived imbalances in the ownership and control structure of the

nation's productive sectors. Consequently, many enterprises had to seek quotation in order to achieve a widely dispersed sale of their shares in compliance with the directive. The indigenisation programme greatly increased the number of quoted companies.

- Regulation being an indispensable part of market development, in 1979 the Capital Issues Commission of the Central Bank of Nigeria was converted to the present Securities and Exchange Commission (SEC).
- The privatisation programme of the Federal Government which some states implemented between 1988 and 1992 introduced 40 companies to the market.

In addition to the foregoing government actions, the Nigerian Stock Exchange, on its own, took a very crucial step towards the development of the market in 1985 with the establishment of a Second-Tier Securities Market (SSM) to provide long-term finance to Nigerian indigenous enterprises. So far, 29 companies have been listed on the SSM, out of which 9 have graduated to the main market, while one merged with another quoted company.

The Nigerian Stock Exchange, a self-regulatory organisation (SRO), is strictly owned and managed by the private sector. The stock market benefits from excellent accounting and auditing culture with the six leading world auditing firms in place. Nigeria subscribes to the International Accounting Standard (IAS) in corporate financial reporting and in publicly issued (prospectus) documentations. There are also stringent codes of conduct for council members, the staff of the Stock Exchange, stockbroking firms, directors and top managers of quoted companies in order to uphold the integrity of the market. The NSE also operates an Investor Protection Fund for the market in furtherance of its investor protection role.

The Exchange operates a call-over trading system with trading floors located in Lagos, Kaduna, Port Harcourt, Kano, Onitsha

and Ibadan, The head office of the Exchange is in Lagos. Brokers are free to cross-deal large orders while the market operates a 5% price fluctuation band.

Three instruments are currently traded on the Exchange namely: government bonds, corporate bonds or debentures and equities. The derivative market is yet to be fully developed.

From 19 securities listed at inception in 1961, the Stock Exchange listed 267 securities in 1997, made up of 23 Federal Government stocks, 3 Government bonds, 1 Local Government bond, 56 corporate bonds and 184 equities of which 165 are on the main market while 19 are on the SSM. Most of the quoted companies are affiliates or subsidiaries of multinationals such as Mobil, Total, Nestle, Unilever, Dunlop, Beecham, Coca-Cola, Guinness, etc.

Until 1995, the Nigerian stock market was, for all practical purposes, a closed market, as foreign portfolio investors into the market and the larger economy was highly restricted. In 1995, however, in pursuance of the Government's economic deregulation programme, the operations of the Nigerian stock market became effectively internationalised, following the replacement of the Exchange Control Act 1962 and the Nigerian Enterprises Promotion Decree 1989 with the Nigerian Enterprises Promotion Commission Decree 1995 and the Foreign Exchange (Monitoring and Miscellaneous Provisions) Decree 1995.

Performance of the Nigerian Stock Market

The activities of the Nigerian Stock Exchange have been facilitated by the existence of a large number of banks and non-bank financial institutions in Nigeria, an appropriate legal and regulatory framework, and an enabling environment. Progressive fiscal and monetary policies adopted in the past years by the Nigerian Government have led to relative stability in the macroeconomic environment. This macroeconomic stability together with the on-going deregulation and upgrading of market

infrastructure have made a positive impact on the performance of the Nigerian stock market, Consequently, all key performance indicators like market capitalisation, turnover, capital raising and the Nigerian Stock Exchange All-Share Index have sustained their impressive growth as evident in Table 32.1.

TABLE 32.1: The NSE 1996 Performance (1994-1996)

		1994	1995	1996
1	The LSE all – shared index (end Dec)	2205.0	5092.15	6992.10
2	Market Capitalization (end Dec)	N65.5 billion	N171 billion	N285.6 billion
3	Turnover Volume (Jan – Dec)	524 million	397 million	882 million
4	Turnover Value (Jan – Dec)	N986 billion	N1.83 billion	N7.063 billion
5	New Issues (Jan – Dec)	21	31	36
	Number Value	N2.7 billion	N77.063 billion	N21.5 billion
6	Foreign Investment Portfolio	-	US\$1.137 million	US\$32.99 million
7	Average P/E Ratio	5.5	9.2	12.2
8	No of listed companies	177	181	183
9	No of stock broking firms	140	162	162

Source: The Nigeria Stock Exchange.

The market capitalisation recorded an average annual growth of 70% between 1994 and 1997 as a result of price appreciation of shares of most quoted companies that have consistently been posting good results as well as new listings, including four mergers. The current market capitalisation is approximately N400 billion or US\$4.6 billion. This figure represents 17% of Nigeria's Gross Domestic Product in 1996.

The market turnover of the Nigerian Stock Exchange also recorded remarkable growth between 1992 and 1996, rising from N492 million in 1992 to N7 billion in 1996. Between January and April 1997, a market turnover of N4 billion was achieved. The dramatic increase in turnover has been partly influenced by the entry of foreign portfolio investors into the market, following the repeal of the Exchange Control Act, 1962 and the Nigerian Enterprises Promotion Decree, 1989 – two pieces of legislation which seriously impeded foreign investment flows into the country.

The repeal of these laws and the promulgation of Decrees 16 and 17 of 1995 have fully internationalised the operations of the Nigerian securities market. Consequently, investors from Europe, USA, South Africa as well as foreigners residing in Nigeria have been investing in the market. Between July 1995 and December 1996, a total of US\$34 million was invested in the emerging market. This figure is likely to increase further, more so with the take-off of the T+5 computerised Clearing and Settlement System, and the increasing attraction of the markets to international fund managers as evidenced by the series of visits to the Exchange in recent times. The Nigerian Emerging Market Fund and other African Funds are already exploiting the vast opportunities in the Nigerian stock market and other African markets.

The introduction of T+5 settlement and clearing system is in compliance with the FIBV G-30 recommendations that every modern market must operate at least a T+5 delivery and settlement system. Currently under the new system, settlement of trades among brokers is done through four stockbrokers' banks, including Diamond Bank Nigeria Limited. So far, the system has worked well as brokers are promptly settled while there is greater transparency in the transactions in the market. Although the new system has not affected turnover yet, it is expected to do so in the near future.

The growth of the Nigerian stock market is also well reflected by the growth of the LSE All-Share Index. The Index has risen from 784.0 at the end of 1991 to 6992.10 at the end of 1996. This is an indication that the market is very profitable for investors. In the same vein, the IFO Emerging Market Database rated the Nigerian market among the best 15 performers in the world in 1991 using its Global Index for the market. By 1994, when the IFC Global index for Nigeria grew by 168%, the market became one of the best three performers in terms of returns on investment in dollar terms. In the third quarter of 1995 when the IFC Index for Nigeria grew by 42%, the market was rated first. In 1996, the IFC Index for Nigeria grew by 44%. In addition to the Global Index, IFC also produces an Investable Index for Nigeria. Other African countries with investable indices are Zimbabwe and South Africa. The Investable Index is another good guide for investment decision in any market.

An important function of a stock exchange is the provision of a market and a means of raising capital for government and companies. Over the years, the Nigerian stock market has played major roles in the domestic capital formation and wealth reallocation processes in Nigeria. Until 1987, it was used by the Federal Government to raise funds for the financing of capital projects, hence the Federal Government Development Stocks currently listed on the Exchange. By 1987, the Federal Government, through the Central Bank of Nigeria, had raised approximately N10 billion from the market for this purpose. Some state governments and a local government have also used the facility of the stock market for the financing of capital projects.

With the introduction of the Structural Adjustment Programme (SAP) in 1986 and the subsequent adoption of realistic policy instruments such as the Foreign Exchange Market (FEM), the deregulation of interest rate structure and dividend policy, the Nigerian stock market has become a more viable option for capital formation. Increasing number of companies now use the stock

market facilities for strengthening their capital structure, for modernisation and expansion of operations. In the process, there has been a flurry of rights issues, offers for subscription for equity and debenture stocks. The total amount of capital raised by companies on the market from 1991 to 1996 was about N48 billion which represents over 90% of the entire capital raised over the period 1987 - 1996. There are indications that this trend will continue throughout the 1990s, more so with the on-going deregulation and internationalisation of the Nigerian stock market which are expected to make the market much more vibrant and competitive.

Whether or not the foregoing performance indicates the best the market can advance must be determined against the background of the constraints facing it. Of the several constraints of the market, the following appear to be most important:

- Macro-economic policy instability.
- Paucity of securities.
- High transaction costs.
- Inefficient infrastructure – electricity, telecommunications etc.
- Lack of effective underwriting.
- Weak savings structure.
- Political instability.

Perspective on the Nigerian Stock Exchange

Setting a perspective for the Nigerian stock market must naturally evolve from the traditional role of the stock market in economic development. The question must be asked as to whether the Nigerian Stock market has been able to satisfy the developmental and growth needs of the economy. Also, is the market as presently constituted positioned to meet the long term growth objectives of the economy?

Given the relatively low capitalisation of the Stock Exchange as a percentage of GDP (17%) and the low liquidity of the market (turnover ratio was 3% in 1996), there is no doubt that the market is shallow and lacks breadth and therefore has not been able to satisfy the needs of the economy in all the relevant departments. Satisfaction of tile capitalisation and liquidity requirements are important. For one, a liquid stock market makes it easier for firms to raise investment capital. By making long term investments more attractive, liquid stock markets are able to boost investment in the long-run. In the light of recent experiences and the long term growth objectives of the Nigerian economy, the stock market must adopt measures to increase new listings which in turn will increase market capitalisation to 50% of GDP and liquidity ratio to 20% by the Year 2002. Such measures should include:

- Encouragement of Nigerian indigenous companies to seek stock exchange quotations through appropriate incentives. The benefits of quotation should outweigh the costs.
- Nigeria, being an oil producing nation, oil exploiting as well as oil service companies operating in Nigeria should be encouraged to quote their shares on the Exchange,
- The on-going privatisation programme should be pursued vigorously in order for Nigeria to optimise the gains of the macro-economic stability which would deepen and widen the investment options available in its market. The accomplishment of this has great potential to accommodate the demand of foreign investors for big volumes of shares. Using ADRs and GDRS, government can implement privatisation of big utilities companies.
- The use of bonds in the market by government and companies needs to be encouraged through the deregulation of pricing of debt securities. The Exchange is also facilitating and encouraging the introduction of private and independent

rating agencies as their services provide a basis for valuation and hence trading of individual debt securities.

- Government can also increase the breadth of the market by securitising its domestic and sovereign debts. Also all tiers of government should patronise the market to raise bonds instead of using short-term money to fund long-term projects and consequently increasing inflationary pressures.
- The introduction of new products such as derivatives will add dynamism to the market and increase its width.

One criticism of the Nigerian market is the period of time required for raising new monies *vis-a-vis* the money market. In the past, the average duration for such transactions was six months. It is therefore anticipated that the deregulation exercise would reduce this duration to between one or two months. Unfortunately, the attainment of this objective has been elusive judging by the experience so far with deregulation. Therefore, a new strategy has to be evolved to shorten the turnaround time for raising funds in the market to a maximum of two months. This should include a reduction in the time for packaging applications by market operators and regulators as well as effective underwriting of all new Issues.

In an effort to make the market cost effective for its issuers particularly users, actions have been taken to reduce explicit and implicit cost of public Issues. The regulatory bodies, SEC and the NSE have announced substantial reduction in fees charged in the market. Professional fees of market operators should also be reviewed downwards. Continuous downward review of fees and removal of other impediments to stock exchange quotation will make the market more competitive. In continuation of the modernisation of the operations of the Exchange, the transition from the current call-over trading system to Automated Trading System (ATS) has been completed. It is also projected that in the

future stockbrokers will be able to trade from their offices in any part of the country. In the area of clearing and settlement, the Exchange plans to move from the current T+5 before long.

Conclusion

The Nigerian Stock Exchange has a few years to make a dramatic transformation and become a truly emerging market. If it does and becomes investor-friendly and cost-effective, it will become a competitive stock market which will be relevant to the aspirations of the Nigerian society as most advanced markets are to their modern economies.

The text was originally presented at a WAEN/CFD workshop on Tools for Financing West African Private Enterprises held at Paris on June 16-17, 1997.

APPENDIX A

LIST OF PAPERS AND ADDRESSES DELIVERED BY THE AUTHOR 1992 – 1998

1. *A Realistic Exchange Rate for the Naira*, Seminar organised by Kenneth Michael & Co at Lagos Metropolitan Junior Chamber, March 1992.
2. Welcome Address at the Nigerian Stock Exchange, at the Opening Ceremony of the Workshop on “*Emerging Issues in the Nigerian Financial System*” on Wednesday, April 29, 1992 at the Hotel Presidential, Port Harcourt.
3. *Banking in a Developing Economy* being a paper presented at the American University of Rome, Rome Centre, November 5, 1992.
4. *Interview with Mr. Pascal Dozie* The Chairman/Chief Executive of Diamond Bank Limited. Held on August 5, 1993.
5. An Address by Pascal. G. Dozie, Executive Chairman, Diamond Bank Limited on the *Occasion of the official commissioning of the NPF Community Bank Limited* on Thursday, August 19, 1993.
6. *The 1994 Budget; Expectations and Achievements*. A Paper Presented at Arthur Andersen’s Budget Seminar, on January 27, 1994.
7. Address by Mr. Pascal Dozie, President of the Nigerian Stock exchange at *his first formal meeting with stockbrokers on the Lagos Trading floor*, on Friday April 15, 1994.
8. *Questions for Business World* edition of May 2, 1994.
9. Speech Delivered by The Chairman/Chief Executive, Mr. Pascal G. Dozie, during the *Inlaks Group Financial Officers’ Conference* Held on the May 6, 1994.
10. *Impact of the 1994 Budget on The Key Sector’s of the Nigerian*

- Economy* at the Annual General Meeting of Paints Manufacturers Association of Nigeria at The Sheraton Hotel and Towers, Ikeja, Lagos Held on Thursday, June 9, 1994.
11. *Supporting Growth Initiatives in the Telecommunications Sector: Role of the Nigerian Financial Sector* Held on June 22, 1994.
 12. *The Importance of Good Telecommunications for an Effective Financial System* on the October 5, 1994 at The Lagoon Restaurant Ozumba Mbadiwe Road, Lagos.
 13. *Contractor Financing in the Provision of Infrastructural Facilities* at MUSON Center, October 18, 1994.
 14. Address at the *17th President's Merit Award Dinner* Held at the MUSON Centre, Onikan, Lagos, on Wednesday 16, November, 1994.
 15. *Monetary and Fiscal Policy Dynamics and the Regulation and Profitability of Banking Business* at the Senior Treasurers Retreat organised by Money Market Association of Nigeria on Thursday December 1, 1994.
 16. *The Business and Legal Implications of The Nigerian 1995 Budget.*
 17. *Service Through Professionalism: An Award of Excellence Night* Organised by Rotary Club of Victoria Island. At L'Hotel Eko Meridien Victoria Island, Lagos, on February 17, 1995.
 18. An Address Presented on the occasion of *The First Quarterly Dinner* (1995) Organised by The Aba Chamber of Commerce, Industry, Mines & Agriculture on Thursday March 2, 1995 at Enitona Hotel, Aba, Abia State.
 19. *Liberalisation of the Nigerian Economy Opportunities for West Africa Trade and Investment* presented at the Quarterly Luncheon of the Enterprise Network of West Africa, Nigerian Chapter, Lagos Motor Boat Club, Lagos, on Wednesday March 22, 1995.
 20. *Investing in The Nigerian Stock Market through the Nigerian Stock*

Exchange. A Paper Presented at The First African Europe Forum Let's Trust Africa on May 27 - March 30, 1995.

21. *Seminar for Chairman and Chief Executives of Banks and other Financial Institutions* Held on April 20, 1995.
22. *Clerkship Certificate Award Ceremony* Held at the Lagos Trading Floor, Stock Exchange House, Lagos on Wednesday 26th April, 1995.
23. Welcome Address on the Occasion of the *Second Nigerian Economic Summit* at the Nicon Noga Hotel, Abuja, on May 4, 1995.
24. Address By the Guest of Honour at *The First Nigerian Heartcare Foundation Benefit Awards Day Ceremony* Held at Lagos on May 23, 1995.
25. *Role of Private Sector in the Production of Defence Equipment* Paper Presented During the Seminar on the Military and Defence Related Industries: Problems and Prospects on Wednesday June 28, 1995.
26. *How has Nigeria Responded to the Need of Developing Her Maritime Potential* – Opening Remark, 1996.
27. An Address on *Principal Promoter, Dominion Building Society Limited* at the Inaugural Board Meeting of The Board Held on Monday January 22, 1996 At 10 Okigwe Road, Owerri.
28. An Address on the occasion of *Official Commencement of Sale of Forms for Aladinma Shopping Plaza* at Dominion Building Society Limited on Tuesday 23rd January, 1996.
29. An Address Presented on the Occasion of the Launching of the *Project for the Provision of Infrastructure Facilities at Udoka Housing Estate*, Awka Capital Territory on February 23, 1996.
30. *VISION 20/20 For Nigeria* Paper Presented During the Workshop On “Nigeria – Prospect For Development” at the FCDA, Abuja, April 15-17, 1996.
31. *The Makers and Making of Nigeria Private Enterprises*, May 7,

1996.

32. *Financing Private Enterprise: The Nigerian Experience* Paper presented during the WAEN/CED Workshop on “Removing Obstacle to Financing For The West African Private Sector” OECD Headquarters, May 8 - 10, 1996.
33. *Industrial Growth in Non-Oil Sector in Delta State – Another Way Forward* on the Occasion of the AGM/Dinner Lecture of Warri Chamber of Commerce, Industry, Mines and Agriculture Held at River Valley Hotel, Effurun on May 18, 1996.
34. Opening Address Presented by the President of the Nigerian Stock Exchange at the Seminar on *Funding of the Tourism Industry through the Nigerian Capital Market* at Eko Hotels, Victoria Island on July 3-4, 1996.
35. A Welcome Address at the Seminar on *Funding the Tourism Industry through the Nigerian Capital Market* at the National Assembly Complex Tafawa Balewa Square, Lagos on August 14, 1996.
36. Welcome Address at the *Third Nigerian Economic Summit* Held in Abuja, September 17, 1996.
37. Welcome Address at the *Workshop on Promoting Foreign Investment* in Nigeria, Abuja, October 23, 1996.
38. Opening Speech Delivered at the Presentation of *the First Book of the LBS Management Series*, December 4, 1996.
39. Chairman’s Address Delivered at *The Colloquium on Research and Development* Organised by The Raw Material Research And Development Council On 12th December, 1996 At RMRDC Head Office, Abuja.
40. *Nigerian Economic Outlook: A Private Sector Perspective* at the Vision 2010 Workshop Held in Abuja on 13th February, 1997.
41. *Foreign Investment in Nigeria: Problems and Prospects* Held at Erunwon, Ogun State on 20 February, 1997.

42. Speech Delivered at the *Extra-Ordinary General Meeting of Diamond Bank* Held on March 27, 1997.
43. *The Philosophy Behind Our Innovations: Provision of Creative Solutions to Customer's Business Problems* at the Formal Launching of the Diamond Bank Pay Card at the International Conference Centre, Abuja, on May 16, 1997.
44. *WAEN/CFD Workshop on Tools for Financing West African Private Enterprises* June 16-17 OECD, Paris. Performance and Perspectives for the Nigerian Stock Market - P.G. Dozie Chairman Diamond Bank Limited Lagos, Nigeria.
45. *An Address by the Chairman/CEO Diamond Bank Limited* on the Occasion of the Post - AGM Cocktail, July 1997.
46. *Integrating of Petroleum Industry and the Rest of the Economy*, Keynote Address Delivered on the Occasion of the Workshop organised by NAPE, August 20, 1997.
47. *Visioning and Attainment of National Development Goals*, a Paper Presented at the 13th Omolayole Annual Management Lecture organised by Aiesec Alumni Nigeria at the Nigerian Institute of International Affairs, Victoria Island, Lagos, November 6, 1997.
48. *Improving the Tax Payers Rights and Obligations in a Changing Nigerian Environment*, a Paper Presented at the 27th Annual Senior Staff Conference held on December 17, 1997 at the African Hall of International Conference Centre, Abuja.
49. *Of Visioning and Development*, December 22- 28, 1997.
50. *Growth and Development Potentials of the 1997 Federal Budget: A Comment.*
51. *Business Operation Environment: International and Domestic 1977 – 1998.*
52. *Brief Insight to the 1998 Budget: A Speech Delivered at the Seminar organised by Indian Professional Forum* on Friday, February 4, 1998.

53. *The 1998 Nigeria Budget: An Analysis of its Implication for the Economy and Business in Nigeria* on Tuesday, February 10, 1998 at London Chamber of Commerce and Industry.
54. *Response on Economic Summit Group (NESG) to the Head of State's Address* at the Post-Budget Dinner held at Abuja on Friday, February 20, 1998.
55. *Acceptance Speech*: Rotary Club of Enugu, February 27, 1998.
56. *Business Forum – Naira Notes and Coins in Circulation* organised by Lagos Business School on August 1, 1998 at Muson Centre.
57. *The Nigerian Payment System: The role of the Banking Industry* at the Seminar for Finance/Economic Correspondents and Editors Held at The Hill Station Hotel, Jos From 17 - 18 September, 1998.
58. *The Nigerian Financial System: Prospects For Economic Development* at the 1998 October Lecture of the Chartered Institute of Bankers Held at Lagos on October 15, 1998.
59. *Role of Population in Investment and Marketing Planning* at the International Conference On “Census 1991 and Beyond” Held At Abuja From 27 - 29 October, 1998.
60. *Welcome Address at the Fifth Nigerian Economic Summit*, Abuja, November 10 - 12, 1998.
61. Brief Remark at the Formal Launch of “The History of the Nigerian Railway” by the Head of State and Commander-in-Chief of the Armed Forces of the Federal Republic of Nigeria at the International Conference Centre, Abuja on November 20, 1998.
62. *Investment Opportunities in Imo State: The Challenges of Making Imo State Investor – Friendly*, A lead paper presented at the Symposium held at the Institute of International Affairs, Victoria Island, Lagos on 24th November, 1998.
63. Brief Remarks at a Seminar on Agenda for *Economic Prosperity in Nigeria in the Emerging Dispensation* organised by the

Association of Corporate Affairs Managers of Banks on February 16, 1999.

64. *Tribute to Nigerian Breweries Plc – A Toast to Excellence.*
65. *Welcome Address at Diamond Bank Limited/MIGA Workshop on Promoting Foreign Investment in Nigeria.*
66. *Medium Term Financing For Projects in Nigeria.* A Paper Presented on the occasion of the 5th Anniversary Celebrations of C & I Leasing Plc.
67. *A Nation in Distress – Which Way Out?* A Paper Presented on the Occasion of the Official Investiture and Installation of Rotarian Dr. Bayo Kumolu - Johnson, District 9110.
68. *Sources of Uncertainty in the Nigerian Banking Industry: Transaction Cost Implications and The Role of Institutions Held at the Lagos Business School.*
69. *The Nigeria Capital Market to the Presidential Advisory Council Abuja – Role of the Government of a Nation in the Past.*
70. *Unveiling of New Models of Hyundai Accent and Elantra.*
71. *The Dual Exchange Rate Policy And Its Implications.*
72. *Nigeria Stock Exchange : Coping with The Challenges of the Economy.*
73. *Restoring Confidence in the Nigerian Financial System.*
74. *Welcome Address During the Orientation Programme for Newly Engaged Staff.*
75. *Entrepreneurship in Banking (Initiatives and Innovations).*
76. *Review of the Aims of Alumni Association Of Lagos Business School: A Clarion Call.*
77. *Revenue Generation and Optimal Utilisation of Budget Allocation* Opening Remark on the Occasion of A One-Day Retreat For Hon. Ministers and Heads of Extra-Ministerial Department.
78. *Rotary Club in a Changing Nigeria: The Leadership Challenge.*



Pascal G. Dozie is the founder and former Chairman/Chief Executive Officer of Diamond Bank PLC(LON:DBGA),one of the top ten banks in Nigeria and dually listed on the London Stock Exchange and Nigerian Stock Exchange. He is currently the Chairman of MTN Nigeria and a founding partner of Africa Capital Alliance, the first Nigerian private equity fund manager.

Mr. Dozie has been a key contributor to the development of the Nigerian Economy, both in the government and the private sector. A one time Director of the Central Bank of Nigeria and President of the Nigerian Stock Exchange, he served as the founding chairman of the Nigerian Economic Summit Group. Between 2009 and 2011, he was the Co-Chairman of the Commonwealth Business Council - an organisation whose mandate is to involve the private sector in the promotion of trade and investment within the fifty-four commonwealth countries.

Mr. Dozie is a founding member of the Advisory Board of the Lagos Business School and a member of the Council of the PAN African University, Lagos. He also serves as the Co-Chairman of the Nigerian Business Coalition Against HIV/AIDS.

In 2000, Mr. Dozie was honoured with a national award of the Order of the Niger (OON) and in 2011 with the Commander of the Order of the Niger (CON) by the President of the Federal Republic of Nigeria.

Pascal Dozie holds an M.Sc. in Business Administration from the City University, London and a B.Sc. in Economics from the London School of Economics. He is married to Chinyere Dozie and they are blessed with five sons.